The Economist

Wealth management for the many

China's Belt and Road at ten

SCOTUS, reform thyself

Can Javier Milei save Argentina?

SEPTEMBER 9TH–15TH 2023

THE NEW MIDDLE EAST

The promise and the perils


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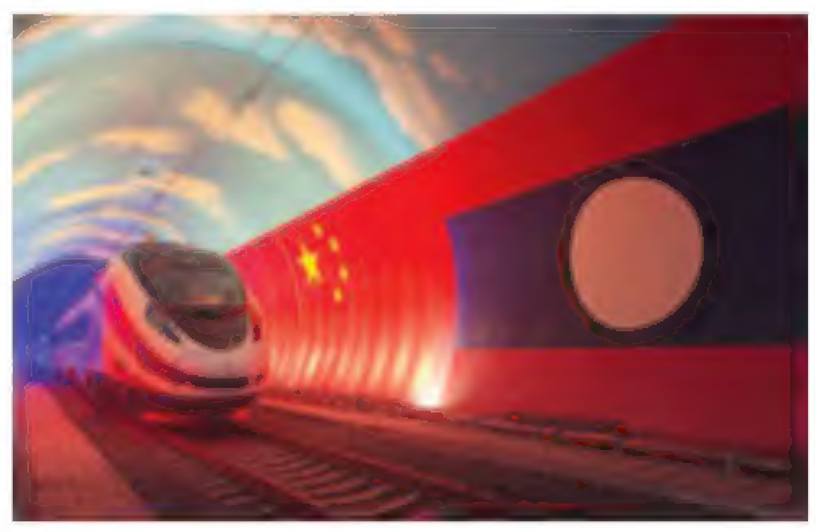

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Volodymyr Zelensky sacked Oleksii Reznikov as **Ukraine's** defence minister. The president said the defence ministry needed a new approach, not least in tackling the corruption that has plagued military contracts (Mr Reznikov is not implicated in any of the allegations). Rustem Umerov was named as the new minister. As head of the State Property Fund Mr Umerov has a record of rooting out graft. He is also a Tatar from Crimea. Meanwhile Antony Blinken, America's secretary of state, went to Kyiv to offer more American support to Ukraine.

The war grinds on

Mr Zelensky visited **front-line areas** in the battle against Russia. The deputy defence minister claimed Ukraine had retaken 47 square kilometres of land around Bakhmut since launching its counter-attack in early June. At least 17 people were killed in a Russian missile attack on Kostiantynivka, a city near the front line.

Turkey's president, Recep Tayyip Erdogan, met Vladimir Putin in **Russia's** southern city of Sochi to try to forge a new deal that would allow for the safe passage of Ukrainian **grain exports** across the Black Sea. Turkey was crucial in negotiating the previous agreement. Russia attacked the Ukrainian side of the **Danube river** again. The ports there are an alternative shipping route for Ukrainian exports amid the Russian blockade.

Britain is to designate the **Wagner Group** of Russian-backed mercenaries a terrorist organisation, alongside the likes of Islamic State. As well as fighting in Ukraine, Wagner troops have been active in several African countries, where they have been accused of war crimes.

Carles Puigdemont, the exiled former leader of Catalonia, said that any support from his Catalan independence party to keep **Spain's** Socialist government in power would depend on granting an amnesty for separatists who had carried out illegal acts. Spain has been in political limbo since an election in July, which was won by the opposition People's Party but without a majority in parliament. The PP will try to form a government this month. If it fails, as is likely, the Socialists may be asked to try, or a new election could be called.

Mexico's Supreme Court decriminalised abortion across the country. The procedure had been previously legalised in certain states. The ruling makes abortion available in all federal hospitals and ensures that health-care workers who provide abortions are protected from prosecution.

American officials claimed that Kim Jong Un, **North Korea's** dictator, was preparing to travel to Russia to meet Vladimir Putin. They said the purpose of the meeting was to seal an arms deal that would send North Korean artillery shells and anti-tank missiles to Russian troops fighting in Ukraine. It would be the dictator's first trip abroad in more than four years.

Japan told the World Trade Organisation that China's ban on its seafood was unacceptable. China, the biggest market for Japanese fish and shellfish, imposed the ban after Japan released water from the damaged Fukushima nuclear plant into the sea. Several international studies had concluded the release was safe.

Thousands of people took to the streets in **Pakistan** to protest against the rising cost of electricity, which has doubled over the past three months. The protests, which turned violent in some places, have put pressure on the country's caretaker government. Yet any relief for suffering Pakistanis could derail Pakistan's deal with the IMF, which helped the country narrowly avoid a default in June.

Around 170 people were injured when rival groups of **Eritrean migrants** fought with each other and with police in Tel Aviv. Pro- and anti-government Eritrean factions have also clashed recently in Canada, Germany and Sweden. Binyamin Netanyahu, Israel's prime minister, said he wanted the illegal migrants to be deported immediately.

Jihadists in **Burkina Faso** killed more than 50 members of the security forces as the country's safety continues to deteriorate. The insurgents have besieged more than two dozen towns and a million people and are inching closer to the capital, Ouagadougou.

General Brice Oligui Nguema was sworn in as the president of **Gabon** after leading a coup that deposed Ali Bongo. The Economic Community of Central African States suspended Gabon's membership and called on the junta to guarantee the safety of Mr Bongo and his family.

Abdel Fattah al-Sisi, the president of **Egypt**, said the country needs to sharply reduce its birth rate, from around 2m births a year to 400,000 in order to prevent a "catastrophe". He said people should not have the freedom to decide how many children to have, pointing to China.

Saudi Arabia and **Iran** exchanged ambassadors, ending a seven-year break in diplomatic relations after a rapprochement brokered by China. Separately, the European Union said that Iran has been holding an employee of its diplomatic service since April 2022. Johan Floderus, a Swede, was arrested on charges of espionage while on holiday in Tehran.

Birmingham council, a local authority serving over 1m people, in effect declared bankruptcy. Britain's second-largest city is not alone in its financial struggles; nearly half of England's councils will have to cut spending on services. Birmingham's immediate woes are blamed on equal-pay claims (brought by female workers who were underpaid) that are estimated to cost between £650m and £760m ($817m to $954m), which the council does not have.

Britain is rejoining the European Union's **Horizon** research programme as an associate member. Talks about allowing Britain to rejoin after Brexit had become bogged down in haggling over trading arrangements for Northern Ireland. British scientists say they missed out on research collaboration and funding by being excluded from the programme.

Enrique Tarrio, the former leader of the **Proud Boys**, a far-right militant group in America, was sentenced to 22 years in prison for his part in organising the attack on the Capitol on January 6th 2021. It is the stiffest penalty handed down to any of the 1,100 people who have been convicted for their part in the assault.

Party pooper

Xi Jinping's decision not to attend the **G20 summit** in Delhi on September 9th and 10th was met with disappointment. America warned China not to "play the role of a spoiler" by sniping from the summit's sidelines.

Country Garden, a big Chinese property developer, managed to make two interest payments to bondholders just before the end of a 30-day grace period, thus avoiding a technical default. The company had only recently warned that it might default on its debt after reporting a huge quarterly loss. With around $187bn in total liabilities, its struggles have rattled investors. However, Chinese markets rallied (albeit briefly) in response to the latest news, and to announcements from Beijing, Shanghai and other cities about easing mortgage requirements for homebuyers.

The problems afflicting China's economy are best illustrated by the slump in its once-mighty trade prowess. The country's **exports** fell by 8.8% in August, year on year, the fourth month in a row of decline (in July they plunged by 14.5%). Outbound shipments from China to Japan dropped by 20%.

Saudi Arabia and Russia surprised markets by extending their voluntary cuts in **oil production** until the end of 2023, rather than October, as had been expected. Prices jumped in response; a barrel of Brent crude traded at $90 for the first time since November last year. Some analysts think that Russia will try to maintain higher oil prices, and thus higher fuel prices, to put pressure on the Biden administration ahead of next year's presidential election in America.

The notion that **Britain's GDP** is still below its pre-pandemic level was overturned by a revision to official statistics. It turns out that GDP had grown by 0.6% between the end of 2019 and the end of 2021, rather than shrinking by 1.2%. As more complete data emerged, the Office for National Statistics found that companies had been adding to their stock of goods, rather than depleting them, and that the wholesale trade and health-care sectors expanded at a much faster pace than had been thought.

Brazil's economy grew by 3.4% in the second quarter, year on year, a better showing than had been forecast and powered by higher household and government consumption. The news was welcomed by Luiz Inácio Lula da Silva, the country's left-wing president, who again called on the central bank to lower interest rates in order to encourage growth.

A weaker Arm

Arm hopes to price its forthcoming IPO on the Nasdaq exchange at between $47 and $51 a share, according to a new filing. That would give the chip designer a market value of up to $52bn, considerably less than the $64bn implied in a transaction by SoftBank, its owner, a month ago. Some analysts now wonder if Arm will even reach a valuation of $52bn, given its latest drop in quarterly revenue.

Alan Joyce stepped down with immediate effect as chief executive of **Qantas Airways**. He was supposed to retire in November, but growing public anger over a series of scandals, including claims that the Australian airline sold thousands of tickets for cancelled flights, has forced him into an early departure.

Saudi Telecom Company, which is controlled by the Saudi government, acquired a 9.9% stake in **Telefónica**, Spain's leading telecoms provider. The news was a surprise for the company, and for the Spanish government, which made rumblings about defending its strategic interests.

Novo Nordisk became Europe's most valuable listed company, after its treatment for weight loss, Wegovy, was made available in Britain. The Danish pharmaceutical group's market capitalisation stood at $428bn at the close of business on September 4th, putting it ahead of LVMH, the world's biggest luxury-goods firm.

After coping with the pandemic and a supply-chain crisis, **Detroit's big three carmakers**—Ford, General Motors and Stellantis—are now confronted with a more traditional problem: a workers' strike. Contracts with the United Auto Workers must be renewed by September 14th and the bosses and unions remain far apart on reaching a deal. The most recent UAW strike was in 2019.

New York began enforcing new curbs on renting properties through platforms such as **Airbnb**. Homeowners who want to rent now have to register with the city, and the platforms must verify that registration. Hosts who repeatedly violate the rules could face fines of up to $5,000. Many have simply pulled their property from the listings. Airbnb says it has in effect been banned from the Big Apple.

Football crazy

Lionel Messi's debut for Inter Miami in July led to a surge in subscriptions for Major League Soccer Season Pass, Apple's streaming package of games, according to Antenna, a data-analytics firm. More than 110,000 people signed up on the day the Argentine player took to the pitch for Miami against Cruz Azul, a Mexican team, and scored the winning goal. The "Messi effect" is also proving to be a winner for AppleTV+, as it has gained new subscribers as a result.


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The Economist

The new Middle East

More money and less mayhem. For now

IF YOU THOUGHT the Middle East was stagnant, think again. The Gulf economies are among the richest and most vibrant on the planet, helped by a Brent crude oil price that rose back to over $90 per barrel this week. A $3.5trn fossil-fuel bonanza is being spent on everything from home-grown artificial intelligence models and shiny new cities in the desert, to filling the coffers of giant sovereign-wealth funds that roam the world's capital markets looking for deals.

As the cash flows in, the chaos shows signs of receding, thanks to the biggest burst of diplomacy for decades. Saudi Arabia and Iran have negotiated detente in a rivalry that has lasted since the Iranian revolution in 1979. Civil wars in Syria and Yemen are killing fewer people, as their sponsors seek de-escalation. Following the Abraham accords between Israel and some Arab governments, Saudi Arabia is considering recognising the Jewish state, 75 years after its creation. The region's global clout is rising—four countries are about to join the BRICS club of non-aligned powers that want a less Western-dominated world.

As our Briefing explains, these shifts begin a new chapter in the Middle East marked by fresh opportunities and new dangers. The region's leaders are testing ideas that have caught on in much of the world, including embracing autocratic pragmatism as a substitute for democracy, and multipolar diplomacy instead of the post-1945 American-led order. The Middle East is also a place where threats that will menace the world in the 2030s may play out early, including nuclear proliferation, extreme weather and even greater inequality, as weak countries fall further behind.

Many occupants of the White House have left office wishing they could forget all about the Middle East. But whether you run a superpower or a small business, it matters as much as ever. Although it has only 6% of the world's people, it has a chokehold on the global economy. As the lowest-cost oil producer, its share of crude exports is 46% and rising. Its share of exports of liquefied natural gas, in great demand since Russia's pipelines to Europe shut down, is 30% and going up, too. Thanks to its location, 30% of all container trade and 16% of air cargo passes through the region. With $3trn of assets, its sovereign-wealth funds are among the world's largest. Its wars and disorder often spill across borders; its refugees affect politics as far away as Europe.

The past two decades have been miserable in the Middle East. Democratic projects ended in failure and bloodshed, in Iraq after the American-led invasion of 2003 and in several countries after the Arab spring in 2011. Islamic State sought to kill its way to creating a caliphate, while in Syria Bashar al-Assad doused his own people in chlorine and nerve agents.

Yet now, as the fighting ebbs, three big changes are visible. First, the region is having to take more responsibility for its own security, as America's appetite to intervene militarily has evaporated. Alongside this, trade patterns have become multipolar: the IMF reckons 26% of Middle Eastern goods exports go to China and India, almost double the level in 2000 and roughly twice the share headed for America and Europe. Recently, this geopolitical realignment has led to a desire to de-escalate conflicts.

Second, the energy transition creates an urgent need to escape the familiar pattern of oil booms and busts. Instead there is a powerful incentive for the Gulf to lift fossil-fuel production in the next decade before demand dwindles permanently, and spend the proceeds on diversifying local economies.

The final shift is a weariness in public opinion. Political experiments, whether democratic or Islamist, are tarnished. Instead, people across the Middle East yearn for economic opportunity. Forget Canada or Sweden: polls show the country young Arabs admire most is the UAE, with its stability and thriving economy under iron-fisted dynastic rule. At the same time, less Western involvement in security and trade also means less pressure for human rights or democracy.

Some of the region's changes invite ridicule—think of a vanity project like NEOM, a gaudy new city being built for an estimated $500bn by Muhammad bin Salman, Saudi Arabia's de facto ruler. But other changes are durable and profound. More women are working in the Gulf. Israeli tourists are thronging to Dubai. Across the region, the non-oil economy is growing at a healthy annual rate of 4% and cross-border multinational investment is rising. It is possible to imagine how a virtuous cycle of stability and peace might lead to more investment and trade that raises living standards and broadens prosperity, reversing a long-lasting spiral of failure in a part of the world with some 500m people.

Yet to achieve that, the Middle East will have to overcome some big problems. Many of these are familiar. The region's more enlightened autocrats argue that they face a kind of "performance accountability" to improve the lot of their populations. But regimes with absolute rule tend towards decay. Other dangers are new—or, rather, looming more menacingly than ever. Now that Iran is on the threshold of becoming a nuclear-armed state, proliferation is a grave worry (see Middle East & Africa section). Climate change means that one of the world's hottest, driest places faces even more extreme weather. Only some countries can afford the investments, such as redesigned cities and desalination projects, that they need to remain habitable.

80:20 rule

Most starkly, the new Middle East is more lopsided than in recent memory. The success stories, the Gulf and Israel, account for only 14% of the population but 60% of GDP, 73% of goods exports and 75% of inward multinational investment. From Israel and the West Bank to Saudi Arabia and Yemen, modern economies border places trapped in despair. Lebanon is mired in financial crisis; Egypt could be heading the same way. The new Middle East's winners embody a transactional mindset that may yet make them richer. Its losers are a reminder that in a world with fewer rules and principles, no one is coming to the rescue. As you fill up your car or wait for your air-freighted parcel, remember they depend on a region that is an economic and political laboratory—and hope the experiment does not blow up. ■

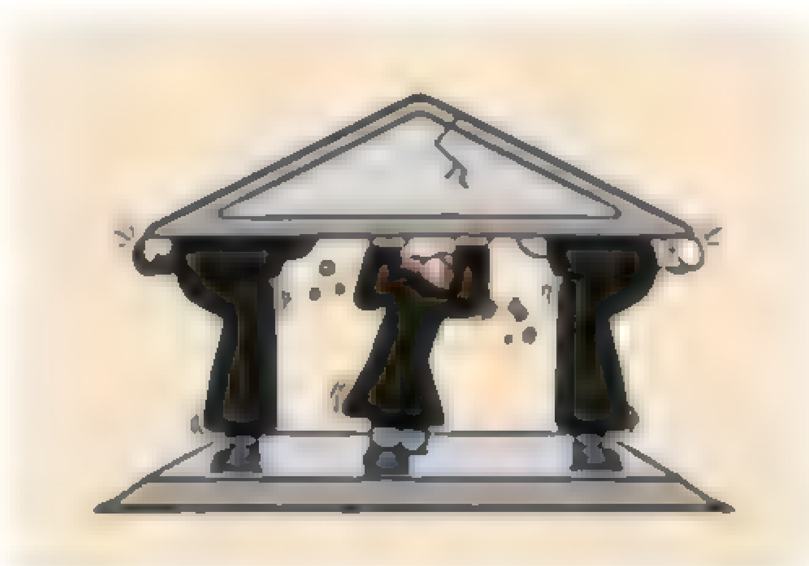
SCOTUS and ethics

Reform thyself

America's Supreme Court is a precious institution. The justices should be more careful with it

NEXT TERM will be agonising for the Supreme Court. Some combination of voters and courts will determine whether Donald Trump becomes president again and whether he goes to prison. President Joe Biden's son has a case before the courts. Dozens of states have changed their voting laws since 2020 and the nine justices on the Supreme Court may be asked to look at them. If the presidential election in 2024 is close, the court may have to step in and adjudicate. With so much at stake, America needs a Supreme Court that is broadly seen as legitimate and, ideally, impartial. Regrettably, trust in the court is at its lowest point since pollsters began asking about it.

This is partly because of polarisation. Supreme Court nominations are a knife-fight in the Senate: there is no longer even a pretence that confirming a justice should be above party politics. Four of the nine justices were nominated by the candidates who will probably contest next year's presidential election. Thanks to brass-knuckle politics, lifetime tenure and quirks of fate, such as the timing of a liberal justice's death, three were nominated by Mr Trump. He refers to them as "my judges", as if they worked for him, which they do not. Meanwhile many left-leaning Americans are outraged at recent rulings on abortion and racial preferences. All this has undermined faith in the court, and much of it is beyond the justices' control.



What they can control are their own ethical standards. On this, some have fallen short. Harlan Crow, a Republican donor, bought a house from Clarence Thomas, flew him on a private jet, took him on cruises and paid private-school tuition for his great-nephew. Justice Thomas decided he did not need to disclose any of this, because Mr Crow is a friend—and the justices were not required to declare such hospitality. Neither did Samuel Alito divulge a ride he took on a private jet that was paid for by another Republican donor. When this was discovered by *ProPublica*, an NGO, Justice Alito complained that no reasonable person could accuse him of having flouted the rules.

It is fine for justices to have rich friends. Yet they also have a duty to the institution they serve. The most common accusation levelled at them is that they are partisans. They deny it, but the charge is easier to make when conservative justices nominated by Republican presidents holiday with conservative donors to Republican candidates and then appear to want to sweep it under their robes (see United States section).

Most federal employees are barred from accepting any gift worth over $20. Members of the Supreme Court, by contrast, largely self-regulate. And lifetime tenure, which we have argued should be scrapped, fosters a sense of entitlement.

Last year Congress passed a law requiring more transparency about financial disclosures. It is too weak: under it, Justices Alito and Thomas can still decide what is reasonable for Justices Alito and Thomas to do. The same goes for the liberal justices, who have sometimes fallen short—though Sonia Sotomayor's paid-for trips to various law schools sound less fun than Justice Thomas's jaunts. That needs to be fixed before the court finds itself entangled in contentious political cases next year.

Democrats no longer have majorities in both houses of Congress, so further reform is unlikely to come through legislation. New standards will therefore have to be adopted by the court voluntarily. These should not be discretionary, but transparent and binding. That would be in the court's interest because voters may otherwise conclude that some justices are less interested in the law than what they can get out of it. Now, of all times, America needs a court that is spotless and seen to be. ■

Argentina's election

Javier Milei's dangerous allure

His country needs strong medicine, not quackery

ARGENTINA NEEDS saving. Annual inflation is 113%. The peso's black-market value against the dollar has fallen by half this year. After decades of economic mismanagement, mostly under Peronist administrations, Argentines are fed up with their venal and incompetent politicians. Their dismay has helped propel Javier Milei, a self-described libertarian and "anarcho-capitalist" who entered Congress only in 2021, to become the front-runner for the presidential election in October. Even by the standards of Argentine politics, he can sound eccentric: he is said to have hired a medium to consult Conan, his dead mastiff.

Nevertheless, Mr Milei talks a good game. He is steeped in neoliberal economics, as he displays in a three-hour interview with *The Economist* (see Americas section). He wants to privatise all the sclerotic state companies, dollarise the economy and reduce the country's deficit to zero in his first year. His political and economic models, he says, are Australia, Israel, Ireland and New Zealand. For years talk of free-market capitalism has been a guaranteed vote-loser in bloated, statist Argentina. Past attempts to liberalise have all faltered. Yet if Mr Milei wins the election next month the country could, in theory, become again a laboratory for exciting, dynamism-promoting ideas.

This paper would be delighted if Mr Milei were to usher in a new age of liberalism in Argentina. However, that seems unlikely. His policies are poorly thought through. Far from building a consensus, he would struggle to govern. And if frustrated, some Argentines worry, he might conceivably turn authoritarian. ▸▸

His proposal to scrap the national currency for the greenback is superficially alluring. Other countries have done it, including Ecuador and El Salvador (see Free exchange), and Argentina's economy certainly needs bold reform. Dollarisation would immediately bring down inflation and end exchange-rate swings that wreak havoc on trade. But under such a system, Argentine banks and households would need a float of dollars to get up and running, which Mr Milei has no way of providing. Currently, Argentina cannot even service its debts to the IMF, its biggest creditor (it is using yuan borrowed from China to do so).

In the medium term

Moreover, though dollarisation would stop the state from printing money, it would not automatically restrain Argentina's profligate fiscal policy. Politicians would still try to borrow too much, and there would be no central bank to inflate the debt away. Fiscal consolidation would require political will that Argentina has seldom shown in the past. To make matters worse, Argentina is on the brink of default, which dollarisation would make even more painful, since there would be no lender of last resort if Argentina's central bank disappeared with the peso.

The next president will surely have to go cap in hand to the IMF, and this is the kind of delicate, diplomatic task for which Mr Milei plainly lacks the right temperament. His closest adviser appears to be his sister. He says incendiary things about his opponents. He suggested that a former presidential aide should be beheaded. He is a fan of Jair Bolsonaro, a populist ex-president of Brazil who copied some of Donald Trump's anti-democratic tactics. He seems to believe conspiracy theories about election-rigging in Brazil and, more worryingly, at home. Despite coming first in Argentina's primaries, he claims he was "robbed" of 5% of the vote.

Mr Milei's view of history is troubling, too. His running-mate, a former lawyer for soldiers accused of atrocities during Argentina's military dictatorship of 1976-83, plays up the crimes of left-wing guerrillas who fought the junta, rather than the bloodier acts of the junta itself. Mr Milei says "both sides committed crimes", a line that civil libertarians do not find reassuring. Intemperate, rash and outlandish: little about Mr Milei suggests he is the saviour Argentina needs. ■

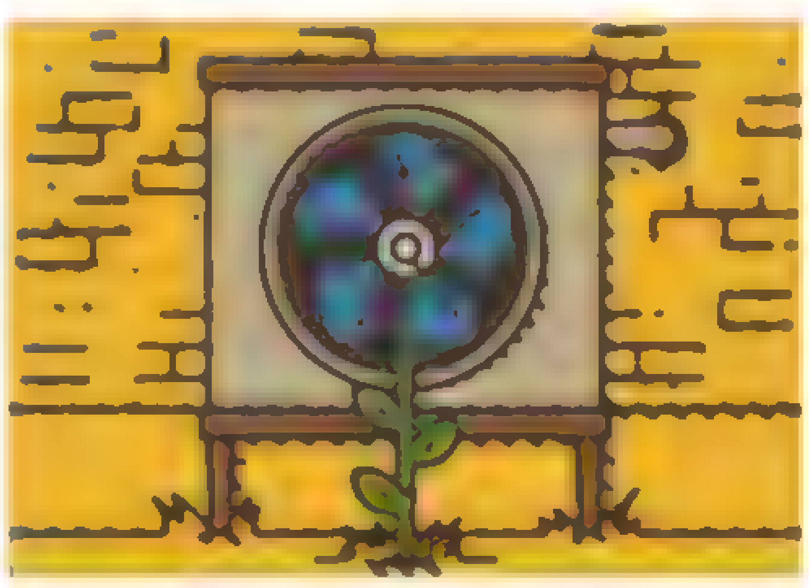
Green politics

In hot water

A row over heat pumps shows how hard decarbonisation will be

THEY HANG from the walls of utility rooms, nestle inside kitchen cupboards and hunker down in cellars. Gas and oil boilers and furnaces have been making homes more comfortable for decades. Their adoption during the 20th century brought people central heating and hot baths on demand, and allowed them to stop shovelling coal. But if the goal of decarbonisation is to be met, these boilers must go.

Twelve European countries plan to phase fossil fuels out of the heating of buildings, and air-source heat pumps have emerged as the best alternative. These extract ambient heat from the outside air, even when it is below freezing, and concentrate it to warm inside spaces. Heat pumps are far more efficient than boilers, in terms of the amount of energy used per unit of heat generated. Lately, however, they have become a symbol of the obstacles that await as countries try to decarbonise. Until recently, green policies had seldom required private citizens to roll up their sleeves and make big, disruptive changes to their lives. Now they are starting to, and many people do not like it.



The annoying thing about heat pumps is that you cannot simply swap a gas boiler for one—at least not yet. Heat pumps are larger than gas boilers, require outside space and, for the 60% of European properties that are old and leaky, their installation must come with extra insulation.

In Britain, knowing whom to trust on the best green heating design for your home is hard enough to discourage all but the most determined and wealthy eco-warriors. Owners of older houses face difficult choices, such as whether to lift up their floorboards and line their inside walls with thick insulation, or wrap their homes in a much thicker layer of external insulation, which may not be allowed by local planning rules. All this can quickly become costly, disruptive—and politically toxic. A plan in Germany to ban gas- and oil-boiler installations as early as next year, for instance, was abandoned after a public outcry.

What to do? Heat pumps that are an easy swap for boilers are likely to come onto the market eventually (see Science & technology section). But even then households cannot be entirely spared from disruption. The least governments can do is make adoption as easy as possible. Although grants covering part of the cost are available in some countries, their administration is often sluggish and should be speeded up. A target cannot be enforced if there are not enough skilled workers to retrofit homes; more will need to be trained. The clash between planning regulations and green rules, which makes householders feel helpless, must somehow be resolved.

Germany's watered-down rules, which are due to be passed in parliament later this week, wisely give households more time, and also ask local authorities to be involved in their administration. They will give large and small municipalities until 2026 or 2028, respectively, to draw up transition plans, which can allow for greener heating that does not involve single-home heat pumps. Municipalities know their local housing stock better than central governments do, and they make the planning decisions that often collide with the demands of retrofitting. They must start favouring the planet more and NIMBYS less.

This episode contains a lesson for governments. Decarbonisation on the scale required to avert planetary calamity will be painful. Voters will often object, and may sometimes sack green-friendly governments. So it is crucial that policies are crafted to reduce emissions as efficiently as possible, with incentives generally designed to persuade rather than coerce. Even with the most far-sighted policies, however, there will be more backlashes. Governments must prepare. ■

Global finance

Wealth management for the many

Wall Street is racing to manage your wealth. That is a good thing

"WHERE ARE the customers' yachts?" asks a wide-eyed visitor to Manhattan, after his host points out the bankers' and brokers' boats, bobbing by the pier. The scene, from a book published in 1940, reflects a healthy scepticism of the advice peddled by financiers. Somehow they always seemed to get rich, regardless of how their clients fared.

In the decades that followed, ordinary investors evened the score. They poured money into low-cost index funds, which passively track a market benchmark, and shunned the fee-charging stockpicker. BlackRock and Vanguard, two index-fund providers, oversee $8trn-9trn in assets apiece. In 2019 the volume of passively managed assets in America eclipsed those overseen by active funds for the first time. Today, however, another shift is under way. The hottest thing on Wall Street is wealth management, which helps clients allocate assets, minimise tax bills and plan for retirement—typically for an annual fee of 1% of invested assets. Firms are piling into the business, spurred by the prospect of profits that will only become juicier as the world gets richer. Could it be good for clients, too?

The wealth industry has long been highly fragmented. The uber-rich often sought advice from the big banks, typically the Swiss ones—UBS claims to bank every second billionaire—or the elite American firms, like JPMorgan Chase and Morgan Stanley. In America and Europe many of the comfortably well-off long relied on defined-benefit pension funds. Others were often served by retail outfits that sold them expensive mutual funds on commission or picked stocks through brokerage accounts. Across Asia and Latin America, domestic banks often managed local millionaires' wealth.

Several of these firms are now being knitted together. That is in large part because the prize has become more tantalising. For the past 20 years global wealth has grown faster than economic output. Much of that has been fuelled by younger customers and those in Asia. According to a survey by UBS, there were 849,000 dollar millionaires in India last year, for instance, nearly 23 times as many as in 2000. The number of millionaires in Africa has risen more than tenfold. Worldwide, the amount of liquid assets for advisers to salivate over is expected to rise to $230trn by 2030, from $130trn today.

The emergence of slick platforms for managing wealth and the automation of basic advice have also expanded the pool of potential clients. By lowering the cost of managing wealth, technology has enabled advisers who once served only the uber-rich to help the merely affluent, too. At the same time, regulatory requirements for banks to hold vast capital buffers in order to make loans or trade securities have reduced the appeal of the activities that commercial and investment banks once prized. The steady, low-capital business of offering wealth advice, meanwhile, has become more attractive.

The consequence of all this has been a frenetic rush into wealth management. Morgan Stanley, which snapped up the wealth arm of Citigroup during the global financial crisis, has since acquired E*TRADE, a brokerage platform, through which it now offers the masses access to its advisers. Citi, in a bid to rebuild what it sold, is poaching talent from rival firms. Consolidation is only hastening the trend. After its shotgun marriage to Credit Suisse, the new-look UBS is now head and shoulders above its rivals in Asia. Executives at JPMorgan Chase have said that their acquisition in May of the crisis-stricken First Republic, a bank that targeted the wealthy, will accelerate plans to expand their wealth-management arm.

For the firms and their shareholders, the future looks exhilarating. If revenues keep pace and margins in wealth management remain in the region of 25-30%, the industry would generate $75bn of profits a year. The total market capitalisation of global banks is around $8trn, and has barely budged for a decade; capturing the enormous opportunity in wealth would add around a seventh to their value. The biggest winners are likely to be those that have already achieved scale, such as Morgan Stanley and UBS (see Finance & economics section).

Regulators, for their part, may see the shift into wealth as a relief. Bolting a steady growth business on to the boom-and-bust cycles of lending and capital-markets intermediation should help stabilise banks—even if it is a little disquieting that the most appealing business in finance is managing wealth that has already been amassed, not assisting the creation of fresh riches through loan-making or issuing equity.

That leaves a nagging question. Does the bonanza for financiers, and a safer financial system, come at the expense of clients' returns? The fees associated with wealth management might make you think that Wall Street is set to make a fortune while clients are ripped off once again. Yet there is an important distinction between a wealth adviser and an active manager.

The allure of stockpickers rests on their promise to beat the market, something that the vast majority simply cannot do on a sustained basis. Wealth managers, by contrast, act as "fiduciaries"—caretakers who are supposed to act in your best interest when offering financial advice. They make suggestions about asset allocation, but are also responsible for making sure their clients are using tax-advantaged funds and that they get into and out of investments in the most cost-effective way. Whereas returns from active investing, after fees, cannot beat passive returns on average, using a wealth manager does not appear to dent returns. Even Vanguard, that giant of index investing, thinks that fiduciaries could add a little to the total lifetime return of an average investor, after fees are paid.

Rich pickings

The investing experience is strewn with pitfalls, even aside from the vagaries of the markets. When left entirely to their own devices people tend to hold too much cash, and to be too hasty to sell up when markets dip. Barely anyone has the time or inclination to work their way through the mind-boggling complexities of a tax code. This is what makes advice useful to the clients who want to preserve and grow their hard-earned fortunes. Some day, customers' yachts may bob by the pier, too. ■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Letters

In defence of the AIIB

The personal and wild accusations that Robert Pickard shared about the Asian Infrastructure Investment Bank are far from the reality of its conduct of business as I know it (By Invitation, August 19th). In my involvement with the AIIB as a member of the International Advisory Panel for the past few years and my interactions with its president, Jin Liqun, and other senior officers and staff, I have observed a professional, transparent, open, well-governed and forward-thinking organisation with a very diverse and international group of managers.

In comparison with other multilateral banks I find the AIIB to be less bureaucratic and more nimble, but equally adhering to Western-style governance protocols. In my experience, President Jin and the AIIB management were always receptive to the advice and recommendations of the advisory panel. President Jin is very well regarded and respected in the international financial community. He is a professional and a strong advocate of good governance.

Moreover, as someone who frequently engages with the AIIB's management I have never observed any instance of interference by the Chinese government or the Chinese Communist Party. AIIB staff comprise around 50 nationalities from around the globe.

The AIIB plays an important and effective role in the financing and development of much-needed infrastructure in the region, supporting sustainable economic development and poverty reduction. In many instances, it has done so in collaboration with the other multilateral development institutions. It has also initiated innovative solutions, especially in green and ESG (environmental, social, governance) financing.

I am very concerned that the wild allegations of Mr Pickard may undermine the good work of the AIIB. I urge your readers and other stakeholders of the AIIB to consider the valuable contributions that it has achieved to date measured against these claims.

JOSE ISIDRO N. CAMACHO
Former secretary of finance in the Philippines
Manila

Tighten our green belts

I have to say my heart sank when I saw yet another anti-green-belt rant in your publication ("Holding Britain back", August 19th). You never miss an opportunity to express your distaste for this *bête noire* of yours. But you're right. We Britons love our green belts, and so do the many animals, birds and plants that live there. Our green belts help ensure that our tiny island still retains grassy areas and that urban areas do not sprawl everywhere, as they do in Italy or Spain, for example.

The main causes of our housing crisis are not green belts but other issues, which include buying property as an investment rather than a place to live, "buy to let", demographic changes, holiday homes, historically low interest rates, mass immigration, multiple home ownership and so on.

ROSALIND SUDLOW
Felsted, Essex

You advocate scrapping England's green belt to secure high levels of growth around places with economic potential. Yet a brief glance at the map that accompanied your article shows that much, if not most, of England's green belt is beyond the golden triangle of London, Oxford and Cambridge. It surrounds cities like Liverpool, Newcastle and Stoke-on-Trent, where low house prices often reflect their low economic potential. Here the green belt plays a crucial role in regeneration by focusing redevelopment on recycled land and older communities.

The risk with your laissez-faire perspective is that a policy which might suit part of the south is applied to the whole of England. A better approach would be to allow green-belt reviews on the basis of county level and regional plans. That system was dismantled in England by the reforms of David Cameron's government, which foolishly gave all planning powers to parochial district councils.

PROFESSOR IAN WRAY
Heseltine Institute for Public Policy, Practice and Place
University of Liverpool

The overwhelming problem of housing shortages is caused by Britain's brain-dead approach to density and design. My home town, Ashford in Kent, serves as a perfect example. Single-storey supermarkets and retail already abound, with further land wasted for parking above ground and excessive road space that car-dependent development produces. A new residential development contains 192 dwellings on ten hectares of land. A just-finished development on my street in Berlin, on half a hectare, combines underground parking, a supermarket and four retail units all accessible by lift from the 187 high-quality apartments on the six storeys above.

If towns were to build new streets using this type of design most of the green belt could be left untouched. Such vibrant areas then become attractions themselves, like my street in Berlin.

JUSTIN SILK
Berlin

Fill out the form

You unfavourably compare the 120 days to obtain a business licence in Germany through a paper-based process with an OECD average of half that ("Sick man once more?", August 19th). By global standards this is still awfully slow. You would have done better to compare Germany with Burundi, where it takes two or three days, Benin (two hours with tax and social-security registration bundled in) and Bhutan (less than a minute).

What distinguishes these developing countries from Germany is their embrace of digital government, which allow business licences to be obtained from a mobile phone and with a number of automated processes running in the background to help civil servants speed up delivery. In Benin company-creation has surged as a result, with the biggest increase in business owners being women and young people. Germany could follow suit.

IAN RICHARDS
UN Digital Government Programme
UNCTAD
Geneva

Malaysia's malaise

The problems arising from the ethnic and religious divide in Malaysia have been growing for some time ("Islamists rising", August 19th). Lee Kuan Yew saw this coming nearly 60 years ago when he took Singapore out of the then Malaysian federation. The sad part is that the ethnic mix could be such a powerful resource in a country that is blessed in many other ways. The east Malaysian states of Sabah and Sarawak are much more diverse than west Malaysia. Resistance to further Islamisation there may well be much stronger.

PETER BRISTOW
Braunton, Devon

Smuggling alcohol

The letter about avoiding Saudi import customs (August 26th) reminded me of my wedding in Saudi Arabia in the 1970s. Following the ceremony at the British consulate, I was amazed and delighted to see the quantity and variety of wines and spirits available at the consul's bar.

Amusingly, I was told that these had been imported as "spare parts for the commercial-attaché's car".

MICHAEL BROOKS
Wrington, Somerset

Letters are welcome and should be addressed to the Editor at
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Reorientation

DUBAI

The Gulf countries want to reshape the Middle East in their image

UNTIL LAST month the BRICS, a diplomatic club which comprises Brazil, Russia, India, China and South Africa, had members from every corner of the developing world except the Middle East. No longer: of the six countries invited to join the bloc at its annual summit on August 22nd, four—Egypt, Iran, Saudi Arabia and the United Arab Emirates (UAE)—are from the region. If they all accept, the Middle East will account for more than a third of the expanded bloc's members.

The invitations are one sign among many that the Middle East is changing. Wealthy Gulf states are trying to establish themselves as non-aligned middle powers. Saudi Arabia has offered to mediate between Russia and Ukraine. The UAE, which will host this year's global climate summit, COP28, wants to fashion a dual role as both oil exporter and green-energy powerhouse. The six-member Gulf Co-operation Council (GCC) is one of the world's economic hotspots, drawing the talented and the ultra-rich from east and west and deploying vast pools of capital abroad.

Even more striking is the Middle East's newfound (and relative) calm. A ceasefire has quietened the eight-year war in Yemen. Iran and Saudi Arabia agreed to ease their 40-year feud in March. Qatar has repaired relations with its neighbours. The region has even reconciled with Syria's murderous dictator, Bashar al-Assad. America, meanwhile, is urging Saudi Arabia to join the Abraham Accords, under which four other Arab countries have established ties with Israel since 2020.

Five years ago Muhammad bin Salman, Saudi Arabia's crown prince and de facto ruler, offered a hopeful vision of where things might go. "I think that the new Europe is the Middle East," he said. "The next global renaissance will be in the Middle East." His comments fit an increasingly popular narrative in the Gulf, that a "new" Middle East will be focused on economics rather than democratisation, Islamisation or other distracting ideologies. Diplomacy will bring stability, which will foster investment and growth that helps everyone move beyond the upheavals of decades past. The Gulf states have long applied this model at home; now they want to export it.

The Middle East has huge potential. First, and most obvious, it is awash with hydrocarbons. It accounts for 36% of world oil production, 46% of oil exports, 22% of natural-gas output and 30% of liquefied natural gas (LNG) exports. Those numbers will only rise. The region has vast reserves (52% of the world's total for oil and 43% for gas) and low production costs. At a time when Western oil majors are skittish about investing, Gulf firms are adding capacity.

Location is important, too: the region connects Europe, Africa and Asia. Some 30% of the world's shipping containers pass through the Suez canal in Egypt, while 16% of its air cargo flies via airports in the Gulf. Its young population is another asset: 55% of Middle Easterners are under 30, compared with 36% of the population of the OECD, a club mostly of rich countries.

Monumental misfortune

Yet the story of the past two decades has been one of conflict and despair. First came America's ill-fated invasion of Iraq in 2003. The fury of the Arab spring followed, bringing upheaval but not democracy: all the countries affected eventually either reverted to dictatorship or collapsed into civil war. Islamist violence and sectarian strife compounded the region's woes.

The Middle East accounts for 6% of the world's population but just 4% of economic output. Strip out a few big oil producers ▸▸

and that figure falls below 2%. In much of the region GDP per person is stagnant or falling (see chart 1). Poverty rates have soared in Egypt and Lebanon, to say nothing of war-torn Sudan, Syria and Yemen.

But three big shifts are under way that could change the place of the Middle East in the world. The first is the growing distance between the Gulf states and America. Three successive presidents have sought to reduce America's military presence in the Middle East. Joe Biden, the current one, is not trying to impose democracy on the region; he does not even seem too interested in reining in Iran's nuclear programme. America has other priorities: competition with China, the war in Ukraine, political turmoil at home.

America's economic role is also decreasing. Over the past 30 years the share of Middle Eastern exports going to China and India has climbed from 5% to 26%, according to the IMF; the share sent to Europe and America has fallen from 34% to 16%. Much of this reflects Asia's booming appetite for oil, the region's main export. In the 1990s China took less than 1% of Saudi Arabia's crude exports, and India less than 3%; by 2021 those figures were 28% and 12%.

Oil is at the heart of the second shift, in energy markets. The region is trying to become an even bigger force in oil and gas to finance a transition away from hydrocarbons, contradictory though that may sound. Recent high oil prices have brought a windfall. Aramco, the state-owned Saudi giant, posted a record $161bn profit last year, up from $110bn in 2021. It plans to expand its capacity by 1m barrels a day (roughly 10%) over the next three years. The UAE has a similar target. It has also made itself a transit point for Iranian and Russian oil, which are subject to Western sanctions. Qatar, already the world's biggest exporter of LNG, plans to boost production by 63% by 2027.

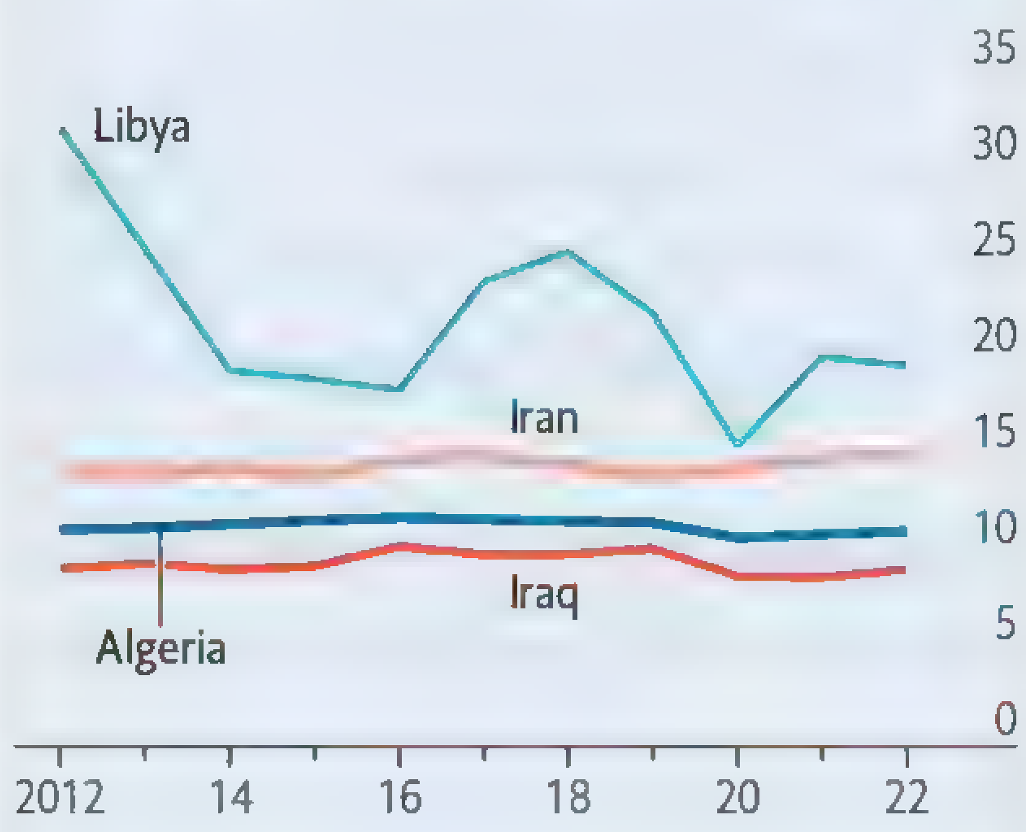
The proceeds are being poured into new industries. Instead of parking its petrodollars in American treasuries, as it once did, Saudi Arabia is snapping up everything from European footballers to stakes in electric-car firms. This summer the kingdom struck a $2.6bn deal with Brazil's largest mining firm, part of a plan to spend $170bn on the industry by 2030.

The final shift is in attitudes. Surveys show that Arabs view the economy as their top concern. About a third of young Arabs say the cost of living is the region's biggest problem and another third cite unemployment; almost half say it is hard to find a job in their country. Asked whether stability or democracy is more important, 82% choose the former. Growing numbers believe that democracy is bad for economic growth.

Citizens have lost interest in political Islam, too. Islamist parties have been forced out of government by Tunisian voters and Egyptian soldiers. Armed Islamists failed to take control of Iraq, Libya and Syria. Widespread protests in Iran last year were a sign of popular frustration with its religious rulers (see Middle East section).

Going nowhere

GDP per person at PPP*, $'000, 2017 prices



Source: World Bank *Purchasing-power parity

The leaders of the Gulf countries, too, seem to have a new outlook. Over the past decade they had sought to use force to change the region. They tried to impose a friendly government on Yemen; Saudi Arabia sent weapons to Syrian rebels; the UAE attempted to install Khalifa Haftar, a warlord, as Libya's leader. Each effort failed.

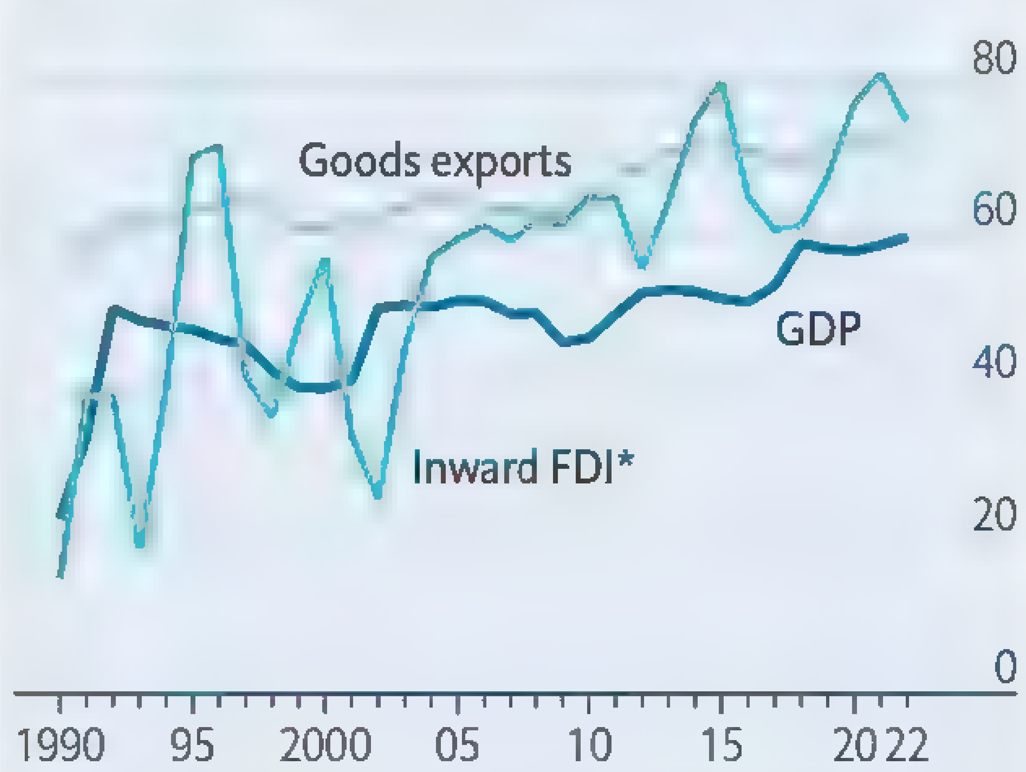
At least for now, the era of macho foreign policy is over. The most unexpected diplomatic shift was the deal between Saudi Arabia and Iran. They have been at odds since the latter's Islamic revolution in 1979, fighting a proxy war that eventually spread to Iraq, Lebanon, Syria and Yemen. With a nudge from China, though, they agreed in March to reopen their embassies, which had been closed since 2016, to tone down criticism of one another in state-backed media and to boost economic ties. They are hardly friends, but the deal has reduced the chance of conflict in the Gulf.

The most unsavoury shift is Mr Assad's reintegration. He did nothing to earn it: after destroying Syria to keep power, he has made no gestures towards reform or reconciliation. But in May the Saudis let him reclaim Syria's seat at the Arab League.

The haves

Gulf states and Israel

As % of Middle East and north Africa



Sources: IMF; World Bank *Foreign direct investment

The easing of tensions has nonetheless brought a measure of calm, which may help explain the improving economic outlook. The IMF expects the non-oil portion of the Gulf states' economies to grow by 4.2% this year (unchanged from last year), even as the oily bit expands by just 1.9% (down from 10.3% in 2022). The region attracted 6% of global flows of foreign direct investment last year, up from 3% in 2019.

Capital markets are booming. Firms in Abu Dhabi, the capital of the UAE, accounted for 14% of the world's IPOs in the first quarter of 2023. Goldman Sachs, a bank, estimates that foreign ownership of Middle Eastern equities climbed from 2% in 2017 to 10% last year. It sees the region's weight in emerging-market indices rising to 10% in the next few years, from 7% today.

Big domestic reforms are making headway: 31% of Saudi women were employed in the first quarter of this year, compared with 16% at the same point in 2017. Gulf states are also trying to be more exacting when doling out aid. Some still comes with few strings attached: Tunisia, for instance, secured a surprise $500m bail-out (most of it loans) from Saudi Arabia in July. But Egypt is having to raise money by selling stakes in state-run firms to sovereign-wealth funds from Qatar and the UAE.

Optimists muse about where this could lead. A calmer Middle East would mean fewer risks to global trade and energy flows, and fewer refugees (the region accounts for over 8m of the world's 35m). As Western firms seek to diversify supply chains, a youthful Middle East could become a new manufacturing base. Morocco's thriving car industry, which produces around 700,000 vehicles a year and sustains 220,000 jobs, shows what is possible.

The region could also do more business with itself. Trade within the Middle East is equivalent to only 2.9% of the region's GDP, compared with 22% within the EU. Researchers at Majid al-Futtaim, an Emirati retail giant, and McKinsey, a consultancy, estimate that dropping barriers to trade could boost the region's GDP by $230bn (5%). If Saudi Arabia and Israel buried the hatchet, commercial ties with the Middle East's most dynamic economy would become possible.

Infrastructure could be stitched together as well. The GCC countries have long mooted integrating their railways, which could easily be connected to those of Iraq, Israel and Jordan, too. Pipelines could bring low-cost Saudi hydrogen across the Mediterranean to consumers in Europe; upgraded transmission lines could allow a sun-baked region to export solar power.

It is an alluring vision, but there are many pitfalls. The first is that the economic progress of the past few years has been uneven. The Middle East has long been riv-

en with political schisms, between revolutionaries and royalists, nationalists and Islamists, Sunnis and Shias. Today, though, the most important distinction is economic, between the prosperous states and the penurious ones.

Unfortunately, most of the Middle East is penurious. Even in a time of regional calm, dire economies threaten these countries' stability. In the past five years alone, since Prince Muhammad first began talking about a regional renaissance, there have been big protests in Algeria, Iran, Iraq, Jordan, Lebanon and Sudan.

Pharaonic mismanagement

Egypt, the most populous country in the Arab world, is especially alarming. Abdel-Fattah al-Sisi, the soldier who has run it since a coup in 2013, has consistently spent less than the constitution requires on health and education. But he has found the money for grandiose projects such as a new capital city in the desert and for big purchases of weapons for the army (Egypt is the world's sixth-largest arms importer).

Egypt's debt-to-GDP ratio has risen to 93%, with 36% of the loans denominated in foreign currencies. Its non-oil economy has been in contraction for 33 consecutive months and for 81 of the past 90 months. The currency has lost half its value over the past two years and will probably be devalued again soon. Annual inflation hit a record high of 38% in July. Citizens endured blackouts in sweltering heat this summer because the government could not afford to import enough fuel for power plants.

A fully fledged balance-of-payments crisis seems likely. Even if the government limps on, it will be hard to reinvent the region when its largest country is moribund. And should unrest erupt on a sufficient scale, it could even damage the economic prospects of the Gulf countries.

Another risk is that even the region's prosperous countries will fail to create the jobs and growth they have promised. They have undeniably done better to date than their counterparts elsewhere in the Middle East. In 1975 Saudis and Libyans had roughly the same GDP per person; today the Saudi figure is 353% higher. The Gulf and Israel (the region's other prosperous spot) account for just 14% of the Middle East's population, but 60% of its GDP, 73% of its exports of goods and 75% of its FDI (see chart 2 on previous page).

But Saudi Arabia, like its neighbours, is battling deep structural problems. Citizens still see a cushy public-sector job as a birthright. The government employs fully 53% of working Saudis, although that is down from 66% in 2019. Schools do not teach marketable skills. Wages are too high for the kingdom to become a manufacturing hub, at least without costly state subsidies.

Prince Muhammad hopes annual foreign direct investment will be $100bn by 2030. Last year it was just $8bn. That leaves the government as the main agent of economic transformation, which is worrying in two respects. First, its finances are hostage to oil markets. Analysts estimate that the kingdom runs a deficit when the price drops below $100 a barrel, if off-budget spending by its sovereign-wealth funds is included. It is currently about $90—its highest for almost a year.

Second, it is far from clear that the government's investments in diversification will pay off. Vision 2030, the kingdom's economic blueprint, predicts tourism will contribute 10% of Saudi GDP by the end of the decade. Officials claim the industry will generate 1m jobs, enough to hire one in 20 Saudis, a higher share than in France or Spain. But there is scant evidence of the hoped-for flood of 100m annual visitors. Last year there were just 16m, estimates the UN—about 1.5m fewer than in 2016, the year the vision was adopted.

Another worry is that the ideological arguments that leaders are so eagerly papering over will at some point resurface. Saudi Arabia is pursuing a détente with Iran even as the latter continues to produce highly enriched uranium for its rogue nuclear programme. Should the regime go further and manufacture a bomb, it could trigger a regional arms race—or even a war.

The Israeli-Palestinian conflict has been relatively subdued for the past two decades, but it is unlikely to stay that way for ever. Serious conflict in the Holy Land could shake Arab agreements with Israel. Violence has ebbed in Libya, Syria and Yemen, but the underlying disputes remain unresolved. Mr Assad faced a wave of protests last month in Sweida, a restive southern province. And Saudi Arabia and the UAE, although the main cheerleaders for the new Middle East, often disagree about both foreign policy and economic matters.

The final risk is that the region gets its geopolitical balancing act wrong. America is still the only country willing and able to project military power across the region, and its domination of the global financial system gives it unmatched economic clout. The Gulf states cannot risk losing it as a partner. Yet their dalliances with Russia and China are prompting mounting anger in Washington. America has imposed sanctions on a few firms in the UAE, including one accused of supplying drones to Russia. It has delayed a deal to sell F-35 fighter jets to the country because of allegations of a Chinese military presence at a port in Abu Dhabi.

Gulf states are "planning in part their future prosperity on the assumption that China's economic rise will continue", notes Emile Hokayem of the International Institute for Strategic Studies, a British think-tank. There are warning lights flashing over China's economy, though: slow growth, an ageing population, a moribund property market. A big gamble on China that alienates America could leave the Gulf in a difficult spot.

The fact is, Prince Muhammad is not the first regional leader to wax lyrical about a renaissance in the Middle East. There are many parallels between the current era and the 1990s, another time when the region seemed to be trying to put its violent past behind it. The Oslo accords appeared to herald an end to the Israeli-Palestinian conflict. Lebanon's long civil war had sputtered to a halt. Autocrats in Egypt, Jordan and Syria talked about opening their hidebound economies. So did Abdullah bin Abdulaziz, the Saudi crown prince of the day, who promised bold reforms and sought better relations with Iran.

In 1993 Shimon Peres, then Israel's foreign minister, wrote a book called "The New Middle East" arguing that trade would pacify the region. "Ultimately, the Middle East will unite in a common market," he stated. "And the very existence of this common market will foster vital interests in maintaining the peace over the long term."

History, sadly, had other ideas. The Israeli-Palestinian peace process gradually ground to a halt. America invaded Iraq in 2003 and Israel sent its army into southern Lebanon in 2006. Supposedly modernising autocrats across the region proved quite bad at the modernising bit, which precipitated the Arab spring. Gulf economies stayed oily, save for Dubai, which never had much oil to begin with.

An era of peace and development is a tempting vision, but to attain it, the region's autocrats must be serious about keeping the peace and smart about fixing their economies. The present circumstances give them a chance to change, and technological and geopolitical forces provide an incentive. The rest is up to them. ■

Ethics and the Supreme Court

Coming cleaner

NEW YORK

Few ethical rules apply to the nine justices. Some take liberties even with those

OTHER THAN receiving the occasional desk ornament or "coffee and doughnuts", federal employees in America are barred from accepting gifts worth more than $20 from anyone but friends and family. They must refuse all gifts that "would not have been given had the employee not held the status, authority or duties" of his position. They are advised to consider declining even gifts valued at less than $20 that might prompt a reasonable person to "question the employee's integrity or impartiality". Similar strictures to promote public confidence apply to employees of the judicial branch, including all district and circuit-court judges.

But they do not constrain the nine justices of the Supreme Court. The only ethical requirements that apply to America's nine most powerful jurists are found in the Ethics in Government Act of 1978, an anti-corruption law passed in the wake of the Watergate scandal. The law requires public officials to disclose in an annual report certain information about their investments, outside income (currently capped at $30,000 a year for teaching, but unlimited when it comes to books) and gifts. It also requires some financial data related to the justices' immediate family.

In June *ProPublica*, an investigative outlet, reported that in 2008 Justice Samuel Alito omitted to log a trip on a private jet to Alaska that was paid for by a billionaire Republican donor who would later bring cases to the Supreme Court. In April *ProPublica* published details that Harlan Crow, a billionaire property developer, collector of memorabilia and noted donor to conservative causes, had been hosting Justice Clarence Thomas on his plane and yacht for decades. The website later reported that Mr Crow bought a home Justice Thomas owned in Georgia and paid private-school tuition for his great-nephew.

The *New York Times* found that in 1999 another friend gave Justice Thomas a loan to finance his purchase of a $267,230 RV, which he affectionately calls his land yacht. The court's longest-serving and most conservative justice reported none of this in years of financial disclosures—though on five occasions earlier in his tenure he had reported travel on private jets.

On August 31st, in a belated disclosure report for 2022, Justice Thomas declared some of these gifts. He reported flying on Mr Crow's private jet three times last year—in February, because of an "unexpected ice storm" in Texas; in May, due to the "increased security risk following the *Dobbs* opinion leak" that erased the federal right to abortion; and in July for a holiday at Mr Crow's getaway in the Adirondacks.

Justice Thomas also acknowledged in- ▸▸

advertently omitting other financial information from previous disclosures. He has now put on record his sale to Mr Crow in 2014 of the home where his 94-year-old mother continues to live. And he has noted his wife Ginni's life insurance, which he left off reports covering 2017 through 2021. In 2011 Justice Thomas filed similar corrections following his failure to report $686,589 that Mrs Thomas, a conservative activist, received from work at the Heritage Foundation, a like-minded think-tank.

Justice Thomas has generally ignored raised eyebrows about his wife's activism. He did not recuse himself from a case involving the riot of January 6th 2021 at the Capitol, despite Mrs Thomas's active involvement in attempts to overturn Donald Trump's loss. Among the pleas she texted to Mark Meadows, Mr Trump's chief of staff, was her view that the "Biden crime family & ballot fraud co-conspirators" should be "living in barges off GITMO".

The uptick in financial transparency reflected in Justice Thomas's most recent report is "a positive development" in the eyes of Gabe Roth, head of Fix the Court, a watchdog. But Mr Roth laments that it took a "major months-long scandal" for him "to follow the disclosure law". Justice Thomas should "go back and amend earlier disclosures in order to fully reflect the lavish gifts he's received over the years", he says.

Justice Thomas's friendship with Mr Crow has been the linchpin of his justification for keeping mum about the billionaire's decades of largesse. "Harlan and Kathy Crow are among our dearest friends," he wrote in April. "As friends do, we have joined them on a number of family trips during the more than quarter-century we have known them." Justice Thomas said he consulted with (unnamed) colleagues about his travel arrangements, and concluded that they fell under the "personal hospitality" exception to the reporting requirement. (The exclusion refers to "food, lodging or entertainment" from friends but does not mention transport.) Justice Thomas's new disclosures regarding Mr Crow were precipitated, he says, by a change in disclosure guidance in March 2023 from the Judicial Conference, the policymaking body for federal courts.

For his part, Justice Alito attacked the *ProPublica* report about him in an op-ed in the *Wall Street Journal*. Private-jet travel was not reportable in 2008, he wrote. And anyway, he flew private rather than on a commercial plane because the seat "would have otherwise been vacant".

These defences do not sit well with Stephen Gillers, an expert on judicial ethics at New York University (NYU) law school. "The ordinary understanding of personal hospitality would be such things as a weekend at a friend's country home," he says. Justices Alito and Thomas are using "narrow and private" understandings of the rules "to justify their omissions". Melissa Murray, also at NYU, agrees. "Most normal people would understand that private-jet travel or school tuition is not the same as having dinner at a friend's house."

News of the justices' generous friends has stirred renewed debate in Congress over Supreme Court ethics reform. For conservatives, bills requiring the justices to adopt a code of conduct—such as the Supreme Court Ethics, Recusal, and Transparency Act of 2023, sponsored by Senator Sheldon Whitehouse, a Democrat from Rhode Island—are sour grapes from liberals depressed about the court's rightward turn. Justice Thomas's lawyer called recent attention to his client "a partisan feeding frenzy" and "political blood sport" that will "undermine public confidence in our republic". Ted Cruz, a Republican senator from Texas, said Democrats' calls for ethics reform are "a political attack directed at a justice they hate".

Monitoring munificence

Yet ethical questions are not exclusive to conservative justices. Several liberal ones failed to recuse themselves in cases where they appear to have had a conflict of interest. The late Ruth Bader Ginsburg took international trips on the dime of rich patrons (though she disclosed these). Justice Sonia Sotomayor's staff were enlisted to help sell her books. In 2016 Justice Stephen Breyer spoke at a "private VIP dinner" at a university where people paid $500 per plate (justices are not supposed to attend fundraisers, if that's what it was).

The justices have shown signs of an appetite for reform. Though he declined an invitation to testify to senators on the matter, Chief Justice John Roberts sent a letter to Dick Durbin, chair of the Senate Judiciary Committee, including a "Statement on Ethics Principles and Practices" which all the justices agreed to. The commitment is weaker than a full code of conduct—something Justice Elena Kagan said was in the works back in 2019—but it is something.

For Richard Re, a law professor at the University of Virginia, tighter congressional regulation presents an opportunity for the justices to "increase their public legitimacy" by fully laying out their financial ties and gifts. He thinks Mr Whitehouse's bill may be too focused on rules for when justices must recuse themselves, and is ambiguous on how (or whether) it will be enforced, but is "good food for thought". The bill has little chance of making it through a divided Congress.

Still, "getting a bit of pushback from elected officials is all to the good", says Dan Epps, who teaches law at Washington University in St Louis. He reckons that it reminds the justices that "they're not above the law and that they still work for us". ■

Olive Garden

Chicken Tocqueville

VIENNA, VIRGINIA

Chain restaurants serve a useful social purpose, along with the breadsticks

TO TIME TRAVEL back to the 1960s simply step into an Olive Garden. Booths at the chain restaurant, known for its surfeit of breadsticks, are lined with spotted upholstery. The sound of Frank Sinatra playing from old-school speakers evokes thoughts of salesmen in Chevrolets coming home to their darlings in the suburbs for supper. But look carefully and you'll find that the patrons more closely resemble today's America. A nurse in scrubs scarfs down a post-shift meal behind a tattooed African-American duo on a date. A family of a dozen—the women in hijabs, the men in dress shirts—debates desserts as a lady with a gap in her front teeth fills up on unlimited salad and packs her pasta for tomorrow.

The woefully inauthentic Tuscan joint is an all-American favourite. New research shows that its 1,800 branches also serve a social purpose. Maxim Massenkoff of the Naval Postgraduate School and Nathan Wilmers of MIT Sloan School of Management used mobile data to track where millions of Americans spend their time. By matching people's movements to socio-economic data on where they live, they were able to see where rich and poor mingle. Sit-down chain restaurants, like Olive Garden, Chili's and Applebee's, top the list. They bring Americans together more than any other private or public institution—eclipsing bars, churches, petrol stations, libraries, parks and schools (see chart on next page).

As America has become more unequal ▸▸

Temple of democracy

and less religious, rich and poor have become ever stranger to each other. In 1980 roughly 12% of the population lived in places that were especially rich or especially poor. By 2013, one-third did. That made local schools less of a melting pot. Meanwhile colleges became a sorting machine for adults. Low and high-wage workers rarely work in the same sectors. And though some high-paid men used to marry their secretaries, they now wed fellow executives whose paychecks resemble their own. An American in the top income quintile might come across people from different backgrounds at the post office or Starbucks, but they are unlikely to encounter an American from the poorest fifth.

In his book, "Coming Apart", Charles Murray, a political scientist, argued that over the past several decades, upper- and lower-class white people "have diverged so far in core behaviours and values that they barely recognise their underlying American kinship". That does not bode well for the worse-off. Drawing on a data set of 70m Facebook accounts, Raj Chetty, an economist at Harvard, and his research team found that people who had friends across the economic strata were more likely to finish high school and earn a better salary; girls were less likely to get pregnant as teens. Those inter-class bonds, they found, are far more predictive of a youngster's chances of escaping poverty than being a member of a civic organisation or volunteering, which previous research identified as drivers of upward mobility.

In theory, Americans ought to encounter each other in public institutions. That a restaurant offering something called "family-style Italian dining" should do a better job might have surprised Andrew Carnegie, who funded 1,700 "palaces for the people" (as he called public libraries) in America, or Frederick Law Olmsted, who designed New York City's Central Park as a space for rich and poor to congregate.

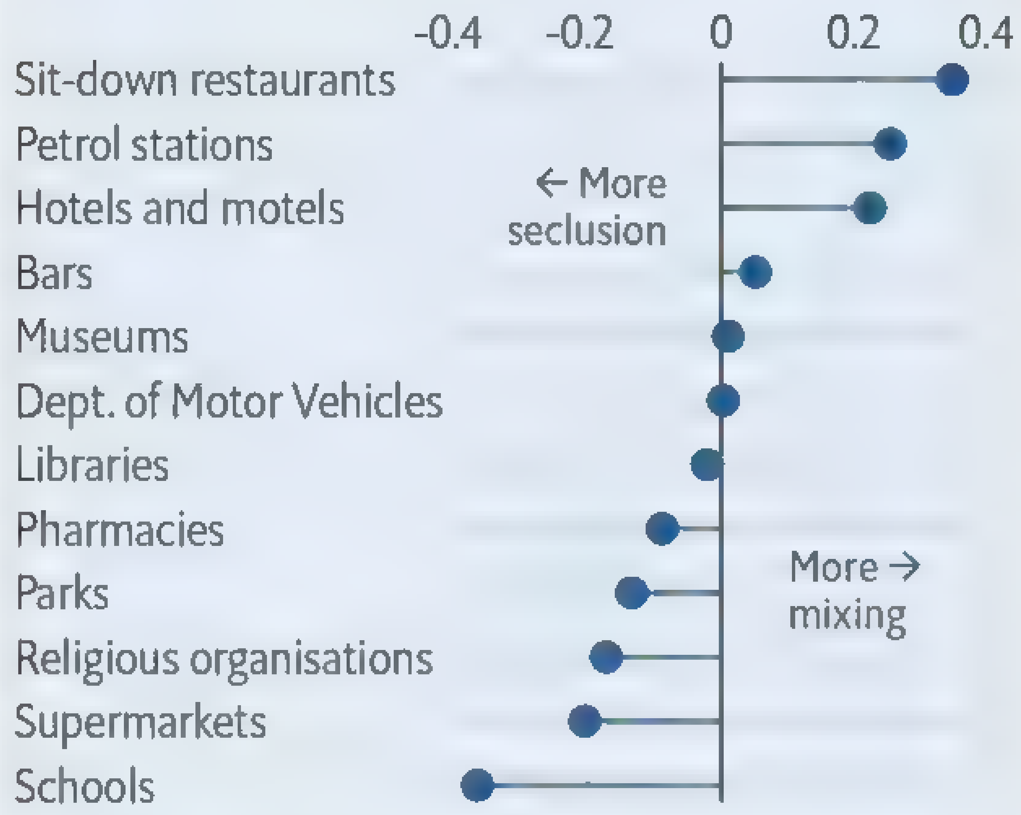
Americans drive nearly twice as far to go to an Olive Garden as they do to attend church. Yet eating the same chicken alfredo pasta in adjoining booths does not necessarily bring about the kind of kumbaya interactions that make cultural inroads. To test whether any mixing does occur in and around the restaurants, Messrs Massenkoff and Wilmers compare the encounters in their data set with the geography of Mr Chetty's cross-class friendships. They find that they are indeed highly correlated. Put simply, if a zip code has an Olive Garden it is also more likely to be a place where people in suits and people in landscaping uniforms know one another.

If chain restaurants are class levellers, you might expect policymakers to embrace them. But as municipal governments push back on gentrification, they tend to try to prevent places like Olive Garden from

Mixed entrées

United States, effect on cross-class mixing, %

Dec 2021-Jul 2022, by location



Source: "Rubbing shoulders: class segregation in daily activities", M. Massenkoff & N. Wilmers, August 2023

moving in. San Francisco went out of its way to make it harder for chains to grow and get retail permits. As the council of a small city in California's Napa Valley wrote, chains like Olive Garden "do not reflect the unique character of the community and the desired aesthetic ambience of the commercial areas of the city".

Nonetheless Americans are fuelling their success one entrée at a time. The stock price of Darden Restaurants, which owns Olive Garden, reached an all-time high in July. Those most concerned about the fraying of American society ought to cheer chain restaurants on. ■

Assessing Ukraine's progress

The third line

WASHINGTON, DC

A rare interview with America's Defence Intelligence Agency

AFTER THREE months of achingly slow progress, Ukraine's counter-offensive is gaining some momentum. Near the southern village of Robotyne, Ukrainian troops have pierced the first of Russia's three defensive lines. They are now attacking the second. "Had we had this conversation two weeks ago, I would have been slightly more pessimistic," says Trent Maul, the director of analysis for America's Defence Intelligence Agency (DIA). "Their breakthrough on that second defensive belt…is actually pretty considerable." Can Ukraine breach it, and the third line beyond, before shells become scarce and winter beckons?

Mr Maul, whose DIA office on the Potomac river periodically shakes as *Marine One*, the presidential helicopter, shuttles to and fro from its heliport next door, is charged with answering such questions. The job of his agency, which is less well known than the CIA, is to take the military measure of America's foes. That often requires quantitative judgments: the range of an Iranian missile or the size of China's fleet. An annual DIA report, "Soviet Military Power", was read avidly during the cold war. But intangibles are just as important. Mr Maul singles out the will to fight—and candidly acknowledges that his agency got it wrong in Iraq in 2014 and Afghanistan in 2021, where American-built armies crumbled almost overnight.

"We thought the Afghans would fight until the end of the calendar year and try to have a heroic defence of Kabul," says Mr Maul. Instead, "they basically folded pretty quickly." That experience, along with the evaporation of the Iraqi army in the face of the Islamic State group, led DIA to "overcorrect" when judging how Ukraine would fare when Russia invaded last year. "We had a similar thought that they were just overwhelmed on paper." It has proved a teachable moment. Mr Maul brandishes a 40-page "tradecraft note", published this January, which re-examines how the agency measures a country's will to fight.

The paper emphasises how national factors—for instance, Volodymyr Zelensky's insistence on staying in Kyiv, compared with Ashraf Ghani's decision to flee Kabul—can affect the battlefield. It points to the importance of leadership on the front lines, an army's esprit de corps, the strength of its command and control, and whether it enjoys sustained logistical and medical support. Such things were neglected because of the presumption that Ukraine's leadership would be outmatched and defeated quickly. It is to guard against that sort of error that DIA analysts now fill out a detailed worksheet to help them think through these factors and how they can interact in unexpected ways.

This methodology is crucial when it comes to assessing the coming weeks in Ukraine. Mr Maul says that the DIA will be watching for signs that Russia can keep up the flow of artillery ammunition to the front lines and maintain leadership at the local level. He concedes that American and Ukrainian officials failed to appreciate the depth of Russia's defences and how difficult it would be for Ukraine to "smash through" them with armour. Ukrainian generals have told the *Guardian* newspaper that 80% of Russia's effort went into building its first and second lines. But Mr Maul cautions that the bulk of Russia's reinforcements remain at the third.

In recent weeks American officials have privately sniped at Ukrainian commanders over their military strategy—in particular the decision to deploy experienced units in the east around Bakhmut rather than on the key axis in the south. Mr Maul is more tactful. "It's open to debate whether the

Ukrainians have deployed the sort of tactics that you would hope would have made more aggressive gains in a shorter time," he offers. More important are two critical variables: Ukraine's stockpile of ammunition, vital for sustaining the artillery barrages that enable progress, and the weather, which becomes wetter in the autumn.

One Biden administration official says that Ukraine has around six to seven weeks of combat left before its offensive culminates. There are private disagreements over how much progress can be made in that time. Some reckon that Ukraine's army, having thrown in most of its reserves prior to breaking the second line, and taking heavy casualties attempting to breach it, is unlikely to get far. "If you look at the battlefield in five years' time, it could look broadly similar," says a senior American intelligence official, emphasising that the quality of both Russian and Ukrainian forces is declining over time.

Mr Maul is somewhat less gloomy. He notes that Sergei Surovikin, the Russian general who built the defensive lines, and Yevgeny Prigozhin, whose Wagner Group mercenaries achieved Russia's most tangible gains of the past year, are both off the battlefield—the former sacked and the latter dead in a plane crash. Mr Maul, choosing his words with care, says that Ukraine's recent successes are "significant" and give its forces a "realistic possibility"—intel-speak for 40-50% probability—of breaking the remaining Russian lines by the end of the year. But he warns that limited ammunition and worsening weather will make this "very difficult".

Attention is already turning to the next fighting season. Even without a breakthrough this year, the DIA is moderately confident that if Ukraine can widen the salient around Robotyne, hold its positions and keep ammo flowing in, it will be well placed for a fresh push in 2024. ■

Intangible factor

Urbanism

Blocked bookings

NEW YORK

New York City places restrictions on short-term rentals

"IT'S MY HOUSE," says Gia Sharp, a host on Airbnb, a rental platform. "I've worked really hard to buy it. So the thought that someone else can tell me what I can do with my house is a little crazy." But a law which went into effect on September 5th caused Ms Sharp's Brooklyn listing, and thousands more, to disappear from Airbnb and other short-term rental platforms.

"It took a long time for New York City to get its hands around Airbnb," says Sean Hennessey, of New York University's Jonathan Tisch Centre of Hospitality. Years after many cities (including Boston, Paris, San Francisco and Sydney) began implementing laws limiting rental days and slapping fines on violators, the Big Apple is following suit. A new municipal law requires hosts of short-term rentals of less than 30 days to register with New York City.

The city also requires that hosts be present during the stay and guests must have full access to the entire home. Lisa Grossman, a former short-term-rental host in Hell's Kitchen, a Manhattan neighbourhood, calls the new law a "roommate set-up", where neither the guest nor the host has privacy. "There's no way I'm letting somebody into my home," she says. "I walk around in my underwear."

Hosts say the rules are stringent (Paris's regulations stretch to 120-day rentals) and the registration process onerous. According to Skift, a travel news site, only 3,800 (roughly 16% of previously active listings) have applied as of September 4th and only 290 have been approved. Some are worried they will lose their homes without the added income from short-term renters.

Airbnb, which filed an unsuccessful legal challenge, calls the law a "de facto ban". It says New York City's new rules are an outlier and a contrast with the approach in places like San Diego and Seattle. Airbnb has weathered restrictions before. New regulations removed 10,000 listings from Amsterdam in 2021. After new rules were enforced in 2021, Sydney lost 6,000 listings. Tokyo saw 14,000 listings removed starting in 2018. Around 80% of its top 200 markets by revenues globally have some sort of regulation in place, the firm says.

The law's proponents say it will stamp out illegal rentals, which contribute to the city's shortage of affordable housing. Murray Cox of Inside Airbnb, an Airbnb watchdog, argues that short-term lets are "potentially displacing the people that used to live there. Sometimes people were evicted." Others argue that they make neighbourhoods worse. Vijay Dandapani, of the Hotel Association of New York City (which has an interest in squishing Airbnb), said "I live in a condo. I can tell you I don't want people coming in at 1am."

Yet Airbnb may not be the neighbourhood killer some claim. Culling Airbnb has not stopped rent increases in the cities that have done it so far. AirDNA, a data firm not affiliated with Airbnb, suspects the relationship between growth in supply of short-term rentals and housing prices is overstated. New York will have to look for other ways to fix its housing problems. ■

School boards

The counter-revolutionaries

An unusual coalition is emerging in California's school-board fights

Republicans promoting policies that might seem more at home in Florida have won victories on school boards in California. They are part of a pushback by parents, especially on issues around sex and gender, that makes for an unusual coalition, including some Democrats, immigrants, evangelicals and gay people. What unites them is a shared view that schools should not be allowed to keep a child's declared gender identity secret from their parents. Hundreds of districts already have policies saying schools must do so.

School boards began taking issues into their own hands after a bill proposed by Bill Essayli, a Republican state legislator, that would have ordered schools to inform parents in such cases, did not even achieve a hearing in Sacramento in April. On July 20th, Chino Valley, a small school district 35 miles east of Los Angeles, became the first in California to pass a motion mandating that parents must be notified in such cases. On August 10th Murrieta Valley school board passed a similar motion, followed by the Anderson Unified school board. Others may follow.

Chino's new president, Sonja Shaw, was already angry about the state's handling of lockdown for schools, but only stood for the board last year when she was told that boys who identify as girls were allowed into her daughters' locker room. When she objected, she says, she was shocked to learn this was permitted by law in California. Ms Shaw says she is typical of many soccer moms who were not politically engaged ("I didn't even know what a school board was," she adds). Republican leaders in California, sniffing an opportunity, recruited her into the party's "Trailblazers" programme, which helps train-up newcomers. California's superintendent of education, Tony Thurmond, attended the chaotic July board meeting in Chino to argue against the parental pushback. When he tried to speak for more than his permitted one minute, Ms Shaw had him ejected.

Some supporters of parental notification are hard-line traditionalists who do not want any mention of gay or trans issues in public schools. But plenty see the trans issue as separate from gay rights. "I voted for gay marriage," says Ani Torosyan of GUSD Parents' Voices, a parental-rights group in Glendale that includes many Armenian immigrants. "This is not about intolerance or hatred or bigotry. It's about not pushing a gender ideology which is not rooted in science." She also voices a widespread frustration about priorities, and why, when her own child's high school has just 24% of students meeting state maths proficiency levels, it is spending time and money on a "gender-ideology curriculum".

Mustafa Umar of the Islamic Centre in Irvine says Islamic schools are now full of students who have left public ones, and that many Muslim parents, long angry at the Republicans, are considering voting for them solely because of this issue. He says activists and politicians have moved away from the "live and let live approach" of the previous generation. "Now they're saying, we are going to insist that you must accept our ideology as being normative."

Yelling: "Stop!"

A smattering of Democrats are also crossing their party's position. In 2020 Erin Friday, a San Francisco lawyer and former self-described "diehard liberal", overheard teachers on Zoom referring to her 13-year-old daughter with a male name and pronouns. A few days after she complained to the school, she says Child Protective Services turned up at her house, followed the next day by the police. Ms Friday now runs the West Coast chapter of a non-partisan, non-religious group of parents called Our Duty (she estimates that three-quarters of the 1,500 members were originally Democrats). On August 28th she and a colleague launched a campaign to get three ballot initiatives on parental notification, female sports and medical treatment for minors to be put directly to voters in 2024.

Chinos and a flag

Some gay people, too, are quietly voicing their concerns. Julie Lane, a lesbian from San Francisco who fought for gay rights in the 1980s, is part of a group called womenarereal.org. "Many of the kids being told they are trans are actually just gay," she says. She adds that it is much harder coming out against gender ideology today than it was coming out as a lesbian in the 1980s.

Meanwhile in Sacramento, a number of bills on the issue are in their final stages in the state legislature. One makes "affirmation of gender identity" legally part of a child's "health, safety and welfare", causing critics to worry that a non-affirming parent may be considered dangerous to a child in custody battles. Another removes the requirement that a child must present a danger to themselves or others or be the victim of abuse before being placed in a residential shelter. A third bill, proposed in response to rowdy school-board meetings, would criminalise any parent who harasses a school official or disrupts a board meeting. To the campaigners, this looks like an attempt to silence dissenters.

Democratic politicians and supporters are starting their own pushback against the pushback. Kristi Hirst, a parent and former teacher, says the new school-board policies in places like Chino are a fearmongering tactic. "Teachers do not have nefarious intentions to keep secrets," she said. "Nobody is doing that." In February she set up Our Schools USA, a parents' group looking to counter the influence of conservative groups such as Moms for Liberty. California's attorney general, Rob Bonta, filed a lawsuit against the Chino board saying that its policy would cause the "forced outing" of trans students, thereby violating their civil rights. On September 6th a court granted his request for a temporary restraining order stopping the district from enforcing its parental notification policy until October 13th, when the case will be decided in a full hearing.

For Republicans, this looks like a gift. A group aligned with the House speaker, Kevin McCarthy, recently launched a "Blue State Project" to help Republicans compete in traditionally Democratic places. A parental revolt in California could prove helpful to their cause. Mr Essayli, the Republican assemblyman, told Democrats on August 14th: "we want the public to know what your agenda is, and we want to run on this in the next election."

Americans are conflicted on trans rights. Almost all oppose discrimination. Yet a majority (and rising share) think gender is determined by sex at birth (a view also held by 40% of Democrats). California's Democrats should be mindful of this before dismissing their critics as bigots. ■

Lexington | The lessons of Bobby Kennedy

The father—not the son—was the Democrats' last great populist

Of all the what-ifs of post-war American politics, none is more haunting than the vision in which an assassin did not shoot down Robert Kennedy while he was running for president in 1968. Had Kennedy lived, runs this counterfactual history, he would have become president, and America would have left Vietnam years earlier. There would have been no Nixon administration, no Watergate scandal to sharpen cynicism and no successful Republican "southern strategy" to deepen racial division. The Democrats would have become the party of the multiracial working class, rather than of the multiracial professional elite.

Now, as his father challenged President Lyndon Johnson for the Democratic nomination, Robert Kennedy junior is challenging President Joe Biden. You might hear echoes of the father's politics, as when the son inveighs against "the warfare machine that is bankrupting our country" or against the Democratic Party for "inviting Wall Street to strip-mine the American public".

But unlike his father, this Kennedy has little chance of the nomination. Rather than falling in love with him, leftish journalists are tearing him apart for his opposition to vaccination and his yen for conspiracy theories, including about the murders of his father and his uncle, John Kennedy. Having supplied the tragedy in 1968, history is offering up the farce.

And yet an unflattering comparison could also be made with most other modern Democratic campaigns, even allowing for mythmaking: they all seem a bit pallid beside Kennedy's blazing, tragic 82-day race. A mix of idealism and pragmatism led him to try to reassemble the Democrats' New Deal coalition, fractured by the Vietnam war and the civil-rights movement. He got in late, after the New Hampshire primary. Another Democratic challenger, Eugene McCarthy, a cerebral senator from Minnesota, had claimed the hearts of affluent, educated opponents of the war.

Kennedy set out to build on his support among black voters by showing working-class white Americans they had common interests. His policies were heterodox, aimed at holding families and communities together, to nurture civic pride and a spirit of mutual obligation. For decades liberals had linked the growth of the federal government to the expansion of rights and freedom, but Kennedy sensed Americans felt they were losing control to a distant government with giant, one-size-fits-all programmes. He argued that people wanted the dignity of work rather than welfare, and he favoured local, public-private jobs schemes. "He sensed and managed to articulate that feeling of disempowerment experienced by ordinary Americans, including the white working class, black and Hispanic voters and other groups excluded from the mainstream of American prosperity and respect," says Michael Sandel, a political philosopher and author of "Democracy's Discontent".

As riots tore inner cities apart, Kennedy called for "law and order", courting the disdain of some liberals who, then as now, heard that as racist code. But he always twinned his call for law enforcement with demands for racial justice, saying white Americans bore responsibility for black violence.

To housewives in Terre Haute, Indiana, he cited Camus, urging empathy with the hopelessness of destitute families. In Indianapolis, on the night Martin Luther King was killed, Kennedy defused the anger in a crowd primed to riot. He quoted Aeschylus on the wisdom that comes with despair and added, "Let us dedicate ourselves to what the Greeks wrote so many years ago: to tame the savageness of man and make gentle the life of this world."

He often said what voters did not want to hear. "You sit here as white medical students, while black people carry the burden of fighting in Vietnam," he scolded students at Indiana University, saying he wanted to take their draft deferments away. "He sort of respects our intelligence," a farmer told a reporter in Nebraska, where Kennedy freely admitted he had no idea how to milk a cow.

The honesty and intensity of Kennedy's campaign—along with his decision to visit Native American reservations, where presidential candidates seldom bother to go, to draw attention to their wretchedness—may have resulted in part from the sense of doom suffusing it. Like the reporters covering him, the candidate feared he would eventually be shot.

From George Wallace to Donald Trump

Yet Kennedy insisted on so exposing himself that supporters would make off with his jacket and even his shoes. He ended his campaign in Indiana with a nine-hour ride in an open car inching through black and white communities. The reporter Jules Witcover described an "unbroken display of adulation and support" as he rode through neighbourhoods "that ran smack against one another, and you read their racial or ethnic composition in the faces that looked up at him, in the colour of the hands that stretched out to him, in the accents that shouted out at him". Kennedy did not succeed with well-off white voters. Instead, he won the Indiana primary by carrying 86% of black voters along with working-class white Democrats, including many who had defected to the segregationist George Wallace four years earlier.

Kennedy would go on to lose the primary in Oregon, an affluent white state, but he won Nebraska, South Dakota and California. There, after his victory speech at the Ambassador Hotel, he broke one of his own rules. Instead of wading through the crowd he left through the kitchen, where his assassin waited.

It is impossible to know what Kennedy might have achieved. Yet it is also hard to believe Donald Trump would have achieved so much had the Democrats modelled themselves less on McCarthy and more on Kennedy. He was, in short, the last great Democratic populist. Kennedy loved to paraphrase George Bernard Shaw: "Some people see things as they are and say, 'Why?' I dream of things that never were and say, 'Why not?'" These days both questions seem worth asking. ■

An interview with Javier Milei

Argentina's next president?

BUENOS AIRES

The radical libertarian is the frontrunner for the election next month

JAVIER MILEI arrives five minutes early to his interview with *The Economist* and cuts to the chase. "My goal is to get the country back on its feet," he says, "so that within 35 to 45 years Argentina can once again be a world power." Thus begins a discussion which lasts for three hours. Over black coffee with five spoonfuls of sugar, Mr Milei outlines his libertarian beliefs and explains how he would make Argentina, one of the world's most economically vexed nations, "great again".

When speaking about his political philosophy, Mr Milei has the air of an eccentric academic rather than an aspiring president. He becomes particularly animated as he explains how the 2008 financial crisis turned him from a "recalcitrant neoclassicist" into an "anarcho-capitalist".

This philosophy, first propounded in the 1950s by Murray Rothbard, an American economist, posits that voluntary contracts between individuals should govern the provision of all goods and services in society, including education, environmental protection, road-building and law enforcement. Extending this logic, Mr Milei describes the state as "a criminal organisation". "Because you don't pay taxes voluntarily," he says, "you pay them at gunpoint." He thinks the welfare state must be dismantled because it transfers the costs of decisions to others, rather than making individuals responsible for their actions. Traditional libertarian principles, such as unfettered immigration and the legalisation of illegal drugs are "marvellous" only in the absence of a welfare state.

Yet as someone who hopes to be the next head of state, Mr Milei says he accepts "the restrictions of real life". Whereas Mr Milei says he subscribes to anarcho-capitalism philosophically, in practice he is a "minarchist", a softer strand of libertarian anarchism in which the state's only function is to provide citizens with the army, the police, and the courts in order to enforce property rights. He says that creating such a limited state would take decades.

→ Also in this section
32 A head-to-head in Mexico

First, pro-market reforms would whittle down the size of the state. Mr Milei proposes cutting public spending by at least 15% of GDP and reaching zero primary deficit (ie, before interest payments) within his first year of government. He would do this by eliminating electricity and gas subsidies, cutting the number of government ministries from 18 to eight, replacing state spending on public works with a private bidding system, reducing federal transfers to Argentina's 24 provinces, and scrapping privileged pensions paid to Supreme Court justices, diplomats and presidents. He promises to renounce his presidential pension. He will try to privatise all of Argentina's 34 state companies, and to reduce or scrap most of Argentina's taxes.

Next, services that are usually provided by the state, such as education and health care, would see increasing doses of competition. A voucher system would be introduced in education, in which parents are given resources to decide where to send their children rather than the state transferring funds to schools. Proposals on health care are thin, but Mr Milei says public provision would move towards an insurance-based model. Both education and health care are governed by Argentina's provinces, so in practice the extent of ▸▸

changes the federal government could make is limited. Surprisingly, Mr Milei says he would leave welfare payments untouched until fiscal and labour reforms have made Argentina more competitive. Trade unions are also "not a problem".

Mr Milei's grandest proposal is to dollarise Argentina's economy (see Free Exchange). Emilio Ocampo, Mr Milei's chief dollarisation strategist, acknowledges that the country needs to have access to a pool of greenbacks in order to dollarise. He argues some of these would come from Argentines repatriating the hundreds of millions of dollars they hold abroad or pumping dollars held under the mattress back into the system. Mr Ocampo has also proposed creating a special-purpose fund in an OECD jurisdiction which would include treasury bonds, debt from the public pension fund and shares in the state oil firm. Using this as collateral to borrow against the fund is one option for raising cash. But Mr Milei says his team is looking at five alternatives that will depend on the state of the market come December, when the new government takes power.

Paint it, libertarian

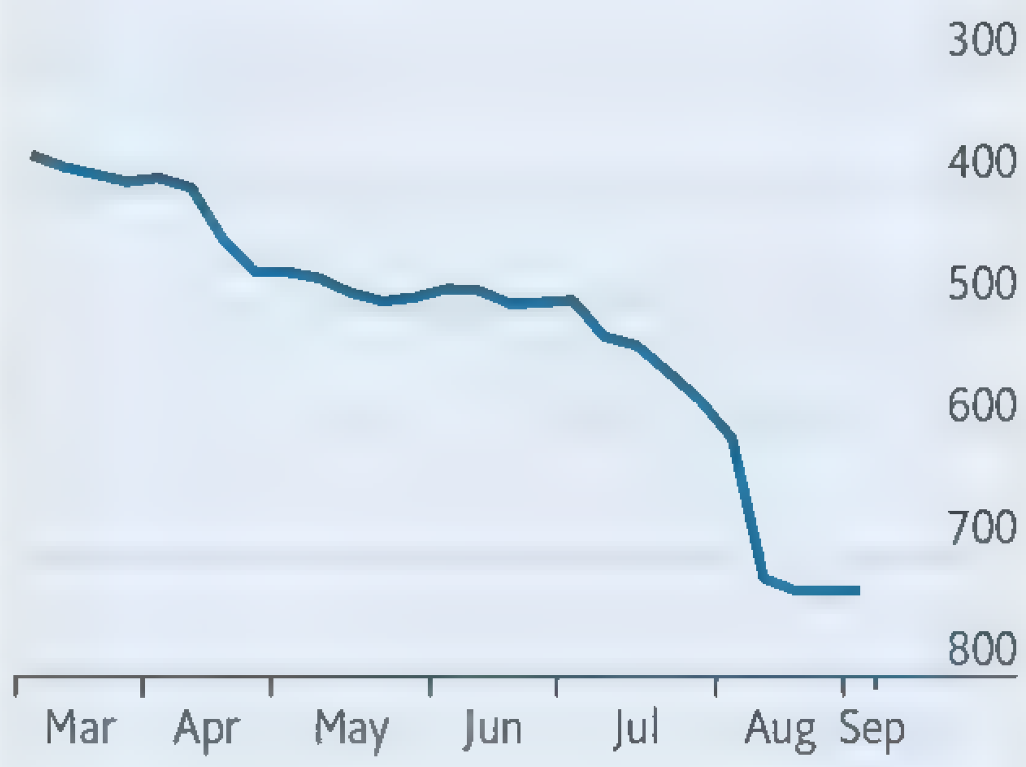
All these proposals, says Mr Milei, would be sent to Congress rather than implemented by presidential decree. He says he will turn to referendums only if Congress rejects his proposal of eliminating the central bank and cutting down the size of other parts of the state. As pro-market models for Argentina to follow, Mr Milei lists Australia, Ireland and New Zealand.

Sceptics argue that dollarisation is unfeasible: few people want to buy Argentine debt or anything associated with it. Since 2018, when Argentina agreed a mammoth \$44bn loan with the IMF, it has struggled to pay back regular instalments. It is difficult to see how it will be able to attract the \$40bn Mr Milei says are needed to dollarise, especially given that he wants to do so within two years. Mr Milei is banking on the markets responding favourably to a potential victory. But after he won Argentina's primaries on August 13th, the peso lost almost a fifth of its value, partly because of fears that it would be hard for him to govern with a minority in Congress (see chart 1). He dismisses talk of ungovernability as claptrap invented by the opposition.

It is also not entirely clear how Mr Milei came up with the target for public-spending cuts of 15% of GDP. According to the latest official data, from 2021, public spending in Argentina represented 38% of GDP, of which two-thirds went on social expenditure such as education and health. Given the long transition that will be required to change the education and health-care systems, and the relatively small share of spending taken up by privileged pensions, some economists believe that Mr Milei will struggle to cut public spending by more than 5% of GDP during his four-year term, if he were to win. It may also be difficult to eliminate subsidies, which cost around 2% of GDP, without some form of backlash. Annual inflation is currently 113% (see chart 2). Scrapping subsidies would push up prices further, at least temporarily, and could hurt the poor.

A bigger bang

Argentine pesos per \$, black-market exchange rate
2023, inverted scale



Source: Blue Dollar

Mr Milei is most comfortable when talking about libertarian theory and his economic proposals. His understanding of international politics and trade is woolly at best and conspiratorial at worst. "All those who want to fight against socialism at the international level are my allies," he says in summary of his foreign policy. He does not explicitly admit to admiring Donald Trump, but he is an unabashed fan of Jair Bolsonaro, Brazil's former right-wing president, who copied much of Mr Trump's anti-democratic playbook.

He appears to believe conspiracy theories that Mr Bolsonaro was the true winner of the presidential election last year. He also appears to think that Luiz Inácio Lula da Silva, Mr Bolsonaro's left-wing successor, was behind protests in which thousands of *bolsonaristas* stormed government buildings in Brasília, the capital, demanding a coup. In a similar vein, Mr Milei claims that he was "robbed" of 5% of votes in the primaries in August (in which he came first).

Beggars banquet

Argentina, consumer prices
% increase on a year earlier

Source: Haver Analytics

Mr Milei is a climate-change sceptic. His liberalism does not extend to pro-choice sentiment: were he to be elected, he would try to ban abortions. He would relax gun laws. He seems unaware that bashing the leaders of Argentina's top trading partners, Brazil and China, may hurt the country's trade and foreign investment. Although he says he wants to open Argentina up to free trade, he suggests pulling out of Mercosur, a trade bloc composed of Brazil, Argentina, Paraguay and Uruguay, which may soon get a free-trade agreement with the European Union.

His ideological Manichaeism means that, in the fight against whomever he deems "collectivist", almost anything goes, including setting aside liberal principles. "First we have to focus on the enemy, which is socialism." When prompted to describe what occurred in Argentina between 1976 and 1983, during which a military junta killed thousands of left-wing guerrillas, he responds: "There was a war between a group of subversives who wanted to impose a communist dictatorship, and on the other side there were security forces who exceeded in their actions." Most Argentines would consider this a false equivalence. Mr Milei's running-mate is Victoria Villaruel, a former lawyer for soldiers accused of atrocities during the dictatorship.

Gimme dog shelter

Mr Milei's inclination to divide the world into socialist enemies and everyone else suggests that he will find it difficult to negotiate with Congress, in which the left-leaning Peronist movement will continue to hold much power. He has used inflammatory language against opponents. In previous interviews he has called the centrist mayor of Buenos Aires "a leftist piece of shit" and suggested that a former cabinet chief of a centre-right government should be beheaded with a samurai sword. He recently dismissed the Pope, who is Argentine, as "the representative of the Evil One" because "he encourages communism." In our interview, he labelled detractors of his dollarisation plan as "brutes".

Mr Milei is close to his sister, who manages his presidential campaign. Little is known about her other than that she studied public relations, ran a pastry business and enjoys throwing tarot cards. He describes her as "a superlative human being" who is "difficult to fit into the normal categories" because of her spiritual purity. Mr Milei says that his sister and his mastiff, Conan, which he had cloned into five puppies after he died in 2017, are "the only ones who never betrayed me". He neither denies nor confirms rumours that his dogs advise him. "If so," he says, "they are the best political analysts in the world." ■

Mexican politics

Señora Presidenta

MEXICO CITY

Mexico will get its first female president next year

Two women will compete to be Mexico's president in the election next year. On September 3rd Xóchitl Gálvez, a 60-year-old senator, was named the candidate for an alliance among three opposition parties: the Institutional Revolutionary Party (PRI), National Action Party (PAN) and Party of the Democratic Revolution (PRD). On September 6th Morena, the party of President Andrés Manuel López Obrador, selected Claudia Sheinbaum, the 61-year-old former mayor of Mexico City, as its candidate.

Ms Sheinbaum is currently in the lead. According to one survey, if elections were held now she would beat Ms Gálvez by 44% to 27%. That is unlikely to change even if Marcelo Ebrard, the former foreign minister, runs as an independent. He withdrew from Morena's process, alleging irregularities. But aside from the fact that either would be Mexico's first female president, how much would they change the country?

The two politicians have some things in common. Ms Sheinbaum is a physicist with a PhD in environmental engineering. Ms Gálvez is a computer engineer who founded her own tech business. "It could be a nerdy campaign," says Javier Aparicio, a political scientist in Mexico City. Neither woman has an explicitly feminist agenda, but both are socially progressive.

Ms Sheinbaum has greater clout. She has been active in politics since her student days and was part of Mr López Obrador's administration when he was mayor of Mexico City in the early 2000s. She won the mayorship, which is the equivalent of a state governorship, in 2018. Because she is the president's protégée, voters have a clearer sense of what she stands for. Ms Sheinbaum has promised to continue Mr López Obrador's "Fourth Transformation", an idiosyncratic mix of policies which involves increased social handouts and a strong backing for fossil fuels. At a campaign rally on August 27th she led the crowd in chants of "It's an honour to be with Obrador". Like the president, she is in favour of curbing the independence of the electoral body and having elected judges.

But her time as mayor suggests she would differ from Mr López Obrador in several respects. She is likely to take a technocratic approach to policymaking and be less aggressive towards her critics. Although Ms Sheinbaum says she will not deviate from the president's policy of supporting state-owned energy companies, she will "accelerate" the green transition. That has not been a priority for her mentor. In private meetings with businesspeople she says she understands they need certainty. This has been lacking under Mr López Obrador. She also says she wants to make sure workers benefit as foreign companies shift production to Mexico, in order to be closer to the United States.

Ms Gálvez, who is backed by an alliance of parties that were once fierce foes, is less well known—but she is no political novice. She was head of the indigenous-affairs institute under the PAN government of Vicente Fox (who was president from 2000 to 2006) and has been a senator since 2018. And she will be a tough candidate for Ms Sheinbaum to face. Ms Gálvez's popularity has risen since the start of June, when Mr López Obrador began attacking her in his morning briefings. That persuaded her to compete for the presidency. Thousands gathered in the capital to see her in action at a rally on the day she was appointed.

"People fell madly in love" with Ms Gálvez, says Joy Langston of the College of Mexico, a university in the capital. She is seen as a maverick, partly because of her style: she uses slang, promising a government free of *huevones*, *rateros* and *pendejos* (loafers, thieves and idiots). She also comes from a poor indigenous family (by contrast, Ms Sheinbaum comes from a middle-class background). And she is good at grabbing headlines. Last year she entered the legislature dressed as a dinosaur to denounce Morena's plan to weaken the electoral body, to make the point that it took the country back to the "Jurassic" age. Ms Gálvez has said she will improve public services, though details remain vague. She wants to create a state firm to develop sources of green energy, and for Mexicans to know more about robotics and AI.

Crime will be an important issue. Two-thirds of Mexicans polled say insecurity is the worst problem in the country, up from one-third three years ago. Ms Sheinbaum has an edge here: the capital's murder rate has fallen more quickly than the national average, from 16 per 100,000 people in 2018 to eight in 2022.

In order to win over voters Ms Gálvez needs to foster a better understanding of the main issues, says Andrés Rozental, an analyst. Many middle-class Mexicans resent opposition parties from their previous stints in power. But they do not want to vote for Morena. "I don't like Claudia, but I don't trust that Xóchitl has enough of a grasp on things to lead the country," says Gabriela Portilla, a teacher.

Both candidates will need to get serious about how to pay for their plans. Ms Sheinbaum reckons she can avoid raising taxes by continuing to crack down on tax evasion. Ms Gálvez says she will save money by culling the president's mega-projects. But neither policy will cover the rising cost of social handouts and pensions.

Along with voting for a new president, Mexicans will choose all 500 legislators in the lower house and 128 in the upper one in the elections in June. Morena could struggle to retain a simple majority, let alone regain the two-thirds majority that it enjoyed before 2021. The *presidenta* will have to prove her mettle as a negotiator, too. ■

Succession in South-East Asia

Indonesia after Jokowi

JAKARTA

As the president prepares to leave office, what will his legacy be?

During his final term as Indonesia's president, Joko Widodo has played the global statesman. He hosted leaders from across the region at the Association of South-East Asian Nations (ASEAN) summit in Jakarta from September 5th to 7th. In August he bagged economic deals during a tour of Africa. He will attend the G20 leaders' summit in Delhi on September 9th, having hosted last year's event, and plans to visit Saudi Arabia soon, too.

At home, his soft-spoken, folksy style has made Jokowi, as he is known, one of the best-liked leaders in the world. His approval rating hovers around 80% (see chart on next page). Only Narendra Modi, India's prime minister, comes close. But even as Jokowi basks in his popularity, speculation is building about what his legacy will be and who will succeed him after he steps down next year.

When Jokowi became president in 2014, he was like no leader the country had ever seen: a furniture-maker who was raised in a riverside shack, he had no connection to the army or any prominent family. He is most at home inquiring about the price of onions at a market or handing out T-shirts to the crowds that throng to catch a glimpse of him wherever he goes. He has revolutionised Indonesian politics by yoking a savvy social-media operation to a relentless focus on economic growth. Yet three big uncertainties hang over his legacy: whether Indonesia's economy will continue to grow; whether his successor will preserve his policies; and whether the country can maintain a balancing act in a divided world.

Jokowi's record on economic growth is decent. Indonesia has been the fifth-fastest-growing of the world's 30 biggest economies since he won office in 2014. GDP has expanded by a cumulative 43% since then. IMF projections suggest this pace could continue. The fund reckons the country will be the second-fastest growing of the group over the next five years, making it the world's 13th-largest economy by 2028, up from 18th back in 2014.

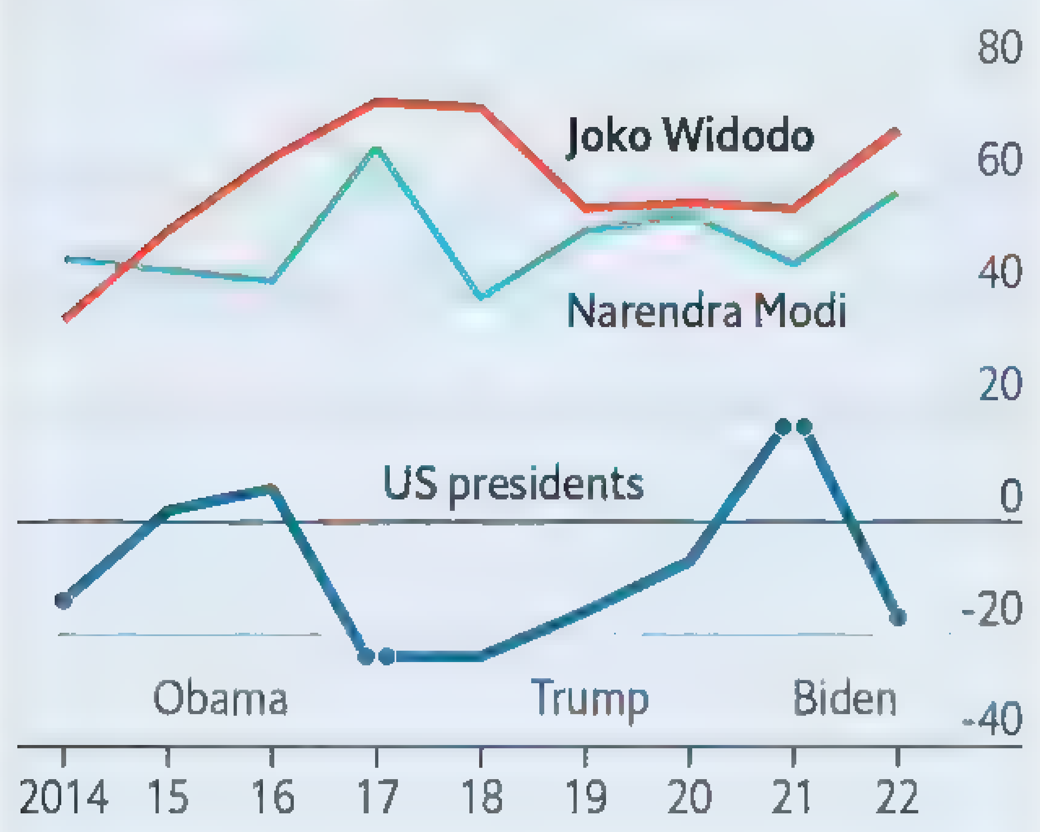
Much of this has been thanks to an enormous push for infrastructure. The world's fourth-most-populous country is made up of more than 13,000 islands, many of which lack basic amenities. Often pictured in a hard hat, Jokowi has built airports, ports, power plants, dams and has laid thousands of kilometres of roads and railways. He has used his popularity to cajole the country's political parties, state-owned enterprises and powerful tycoons.

His signature project, the construction from scratch of an entirely new capital city in the jungles of Borneo, exemplifies this strategy—and highlights the uncertainty of sustaining its success. Jokowi argues that this city, known as Nusantara, is essential because one-quarter of Jakarta, the current capital, could be submerged by 2050. Critics say the $34bn project, due to be completed in 2045, is unrealistic. The government says it will cover 20% of the projected costs, with the rest funded by domestic and foreign investors. Yet more than four years after the project was announced, not a single foreign backer has signed a binding contract to fund the city.

Jokowi has had more luck with getting foreigners to back other projects. Foreign direct investment soared to $45bn in 2022, up 44% from the year before. Much of this investment has come from China and flowed into the mining and processing of ▸▸

Men of the people

World leaders, net approval rating, %



Source: Gallup

nickel. Indonesia has the world's biggest reserves of the metal, which is essential for producing batteries for electric vehicles. In 2014 Indonesia banned the export of unprocessed nickel. With little choice to go elsewhere, foreign mining companies, many of them Chinese, built large processing facilities in Indonesia. This spurred growth and new jobs, albeit at the expense of the environment. Indonesia exported more than $30bn-worth of nickel products last year, 10% of total exports and ten times more than in 2013.

The future of this strategy is uncertain. The government wants to stimulate an expansion from onshore nickel processing to manufacturing battery precursors and even electric vehicles, a far more difficult and complex task that will fall to Jokowi's successor, should he choose to pursue it. It does not help that Jokowi's government has shifted towards "a more interventionist and less market-oriented style", says Tom Lembong, the trade and investment minister in the early years of Jokowi's administration.

Jokowi's focus on infrastructure has also complicated Indonesia's geopolitical position. It has drawn the country, which has traditionally pursued a non-aligned foreign policy, closer to China. Chinese investment was over $8bn in 2022, four times more than that by America, according to Indonesia's Investment Co-ordinating Board. The share of the country's exports going to China and Hong Kong has risen from 12% in 2014 to 22% in 2022. Jokowi has copied China's reliance on infrastructure, debt financing and state-owned enterprises, says Mr Lembong.

Economic reliance on China has limited Indonesia's room for geopolitical manoeuvre. Despite being the world's largest Muslim-majority country, Indonesia has remained silent about the persecution of the Uyghurs, a predominantly Muslim ethnic group native to China's Xinjiang region, for fear of economic repercussions.

Jokowi has sought to hedge by strengthening security and economic links with America and its allies. On security, it has avoided Sino-dependence. The largest suppliers of military equipment to Indonesia are South Korea, America and France, according to the Stockholm International Peace Research Institute, a think-thank.

Yet building economic links with America has proved harder. Indonesia badly wants a trade deal with America that includes metals to make it cheaper to sell Indonesian nickel in America and be less dependent on China. But the American government is concerned about China's dominance in Indonesia's nickel industry, so a deal remains elusive.

Despite these concerns, Jokowi's focus has proved popular. "The vast majority of Indonesian elites admire China," says Mr Lembong. "They think Western democracies are decadent, in decline, messy, slow." By contrast, most Indonesians think of their president as a man who gets things done. As a city mayor, Jokowi became famous for his *blusukan*, a Javanese word for impromptu neighbourhood visits that allow him to connect with voters and learn about their problems firsthand. He continued these visits after becoming president.

A democrat—up to a point

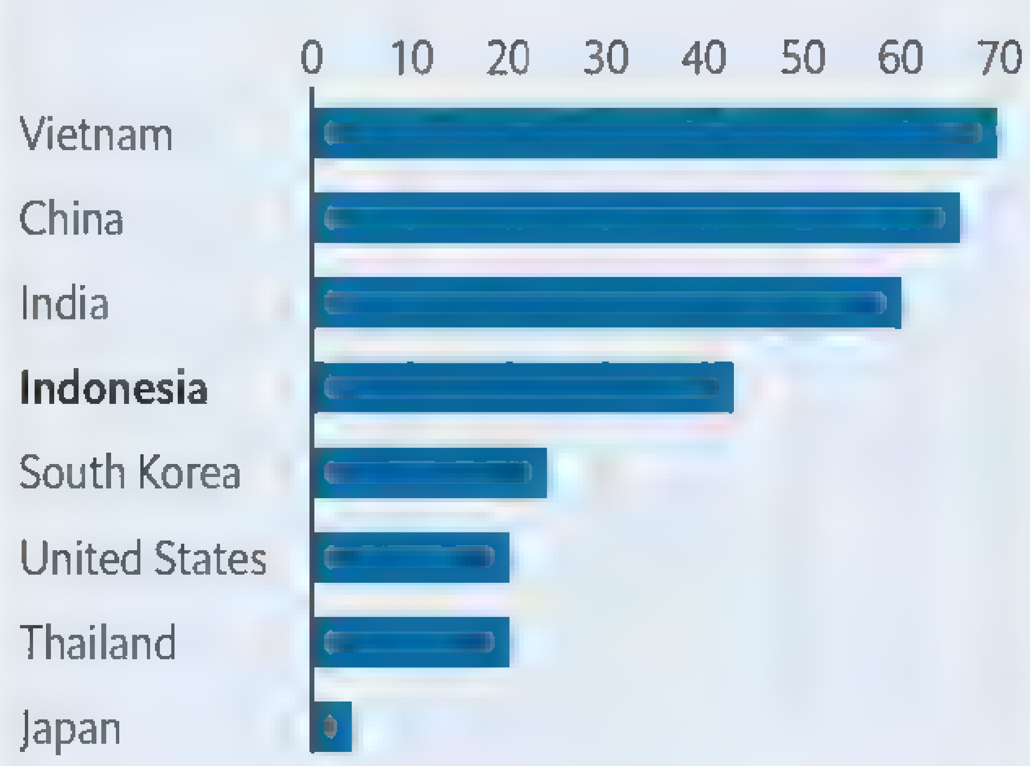
But as he approaches his last year in office, Jokowi's democratic credentials are eroding. He has rolled back liberal laws and weakened the anti-corruption commission, which is bad news for fixing Indonesia's persistent cronyism. And he may be laying groundwork for his own dynasty, much like some politicians before him. In his autobiography, published in 2019, Jokowi declared that "becoming president does not mean channelling power to my children". Yet just after he won re-election in 2019, his eldest son Gibran Rakabuming became mayor of Solo, Jokowi's former post. His son-in-law, Bobby Nasution, is the mayor of Medan, Indonesia's fifth-largest city. Kaesang Pangarep, his youngest son, also wants to enter politics.

Indonesia's constitutional court (whose chief justice is Jokowi's brother-in-law) may lower the age of vice-presidential candidates from 40 to 35; Mr Gibran will be 36 when nominations are due. With a presidential election planned for February, Mr Gibran may be viewed as a potential running mate, one who comes with his father's approval. Yet that will be no guarantee of continuity. The defence minister, Prabowo Subianto, an authoritarian military officer, is neck and neck in the polls with Ganjar Pranowo, the governor of Central Java and a member of Jokowi's party.

Middling power

GDP, % increase 2014-23 forecast

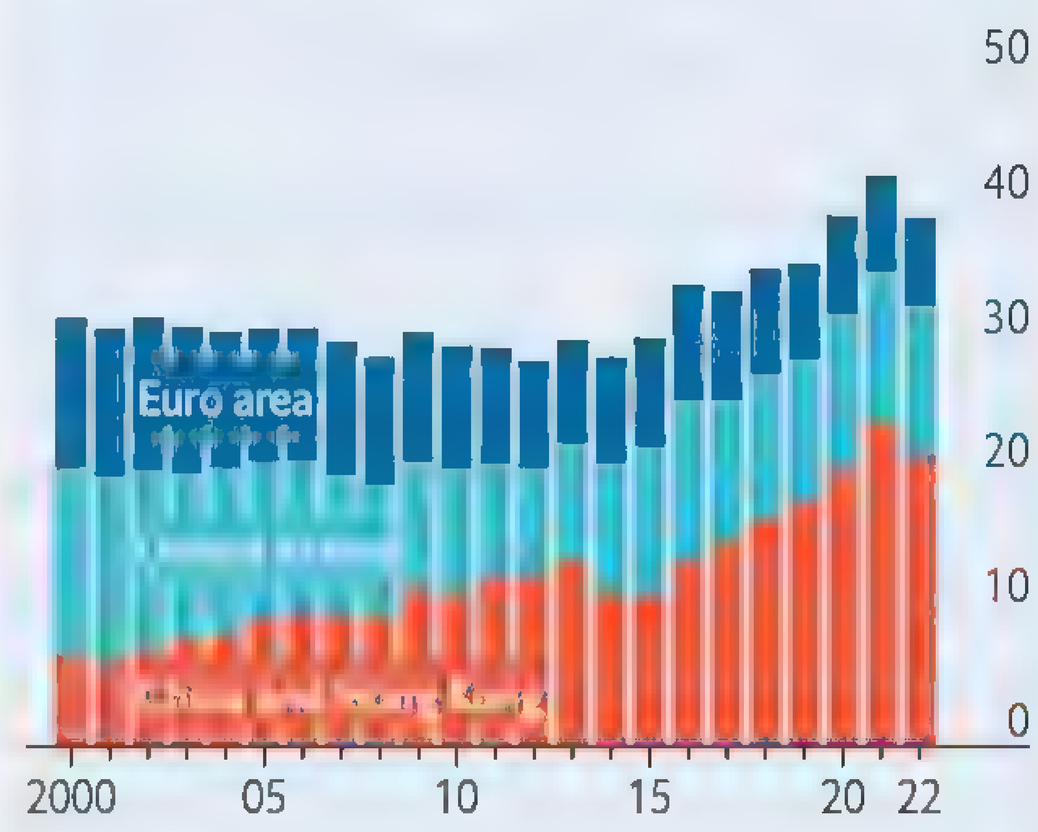
Selected countries



Source: IMF

Chinese growth model

Indonesia, goods exports, % of total



Source: IMF

Mr Prabowo, who has lost to Jokowi twice before, looks like a return to the bad old days. He has been accused of allowing human-rights abuses in Timor-Leste in the 1980s, which he strongly denies. He emphasises his nationalism, advocating food autarky, and has criticised Indonesia's practice of direct elections. Mr Ganjar has just appointed the head of Indonesia's Chamber of Commerce, a well-respected businessman, as his campaign chair, suggesting he may be more serious than Mr Prabowo about economic reform.

A third possible candidate is Anies Baswedan, the former governor of Jakarta and a former education minister in Jokowi's cabinet, who is polling far behind Messrs Ganjar and Prabowo. Seen as an underdog, Mr Anies lost the first round of the Jakarta governor's race in 2017 before an upset win in the second round, supported by conservative Islamic voters. He recently won the support of the country's largest Muslim civil-society organisation, an important voting bloc, which opens the possibility of a three-way race.

Both frontrunners, keen to curry favour with Jokowi, say they will keep his policies, including the export ban on raw materials and building the new capital. Yet Indonesian elections are more about personalities than policies, argues Ben Bland, Jokowi's biographer. That means that no candidate will win on proposals on how to boost economic growth and provide better services. An endorsement from Jokowi would help any candidate. But it will be no guarantee that the winner will preserve his legacy. ■

Uzbekistan's Bukharan Jews

The lost tribe of Central Asia

BUKHARA

A 2,000-year-old community is on the verge of disappearing

TOWARDS SUNSET on a recent Friday, prayer-chant echoed around the turquoise tiles of Bukhara, the ancient Uzbek city Muslims consider the holiest in Central Asia. Yet it came not from a mosque or madrassa, but from a synagogue.

Jews have been living in Bukhara, an oasis on the old Silk Road, for more than 2,000 years. They have a distinctive culture and language (Bukhori, a dialect of Persian). But their numbers are dwindling so fast the community may soon disappear. Half a century ago, when the Soviet Union ruled Uzbekistan, some 20,000 Bukharan Jews lived in Bukhara and another 20,000 were scattered around Central Asia. Now there may be no more than a hundred remaining in the city, and another few hundred across Uzbekistan.

"We are very few," laments Abram Iskhakov, the 73-year-old self-taught cantor of the 400-year-old synagogue. He has led prayers there since its last rabbi died, five years ago, and was not replaced.

The remains of Central Asia's oldest known synagogue, in Turkmenistan, are 2,200 years old. Local lore suggests Jews came to Bukhara after they were freed from captivity in Babylon in 538BC. More arrived in the 14th century when the emperor Tamerlane, ruling from Samarkand, invited Jewish artisans into his domain. The community thrived as merchants and craftsmen, with a similar culture to their Uzbek and Tajik neighbours. "My father taught us that Jews and Muslims are brothers, that the father of both is Abraham," says Mr Iskhakov. But there were reminders of Jews' second-class status in a Muslim realm. Jewish front doors were kept low to ensure "a Jew must bow down to enter his house", says Shlomo Babayev, rabbi at one of two Bukharan Jewish synagogues in Tashkent, Uzbekistan's capital.

The communists who took power after the Russian revolution treated all religions with disdain. Most synagogues were closed. Only old people were allowed to pray in the remaining ones, recalls Rabbi Babayev, who was born in 1955 into a Bukharan Jewish community in Samarkand. His grandfather was arrested, and died in prison, for secretly instructing children in Judaism. In the early 1970s the communists permitted emigration to Israel. An exodus began, which accelerated after the collapse of the Soviet Union in 1991. In the 1990s Rabbi Babayev blessed a dozen families every week as they embarked on the Aliyah, or journey to Israel.

In 1997 he went, too. The Bukharan Jewish diaspora probably has over 200,000 members, split between Israel and America. Rabbi Babayev has returned only temporarily, to serve as rabbi to Uzbekistan's remaining Bukharan Jews. A few others who have returned from Israel, such as Marusya Malkiyeva, a septuagenarian living near Bukhara's second synagogue, are back for good. "I've reserved my grave next to my mother's," she says, referring to the well-tended Jewish cemetery which is now looked after by a Muslim. "Not everyone will leave," she insists. Then her phone rings. It is her son, calling from Israel, where he moved because he has three daughters and could find no suitable husbands for them in Bukhara. ■

Nice here, but how's the weather in Tel Aviv?

Multilateralism

Peak summit

MUMBAI

The G20 has been a resounding success—at least for India

FIRST IT WAS Vladimir Putin, the Russian president, who said he would stay at home. A few days later Xi Jinping, China's leader, decided he would also skip the trip. For a moment on September 5th it seemed as though Joe Biden, too, would have to give it a miss, before he confirmed that he would, in fact, attend the G20 leaders' summit in Delhi on September 9th and 10th. Narendra Modi, India's prime minister and the host of the jamboree, will have breathed a sigh of relief.

Mr Modi has staked his reputation on pulling off a successful G20. Since November last year, when India took over the rotating presidency of the group, Indian cities have been bedecked in G20 logos on wall paintings and billboards. Events have been held in dozens of Indian cities in every state of the union. The prime minister's smiling face has beamed down from these ads. What does he have to show for it?

High-level G20 meetings over the past year have repeatedly failed to reach consensus. Summits of ministers on anything from finance to climate change ended without the customary joint statement. Instead they settled for an "outcome document" that notes areas of agreement as well as discord—usually wording around Russia's invasion of Ukraine. There is no reason to think that the summit of heads of state and government over the weekend will achieve what no ministerial grouping has done so far. That would make it the first G20 leaders' summit to fail to issue a joint statement.

From the perspective of binding the world together, then, India's G20 may be a failure. Yet, as Harsh V. Pant of King's College in London points out, "if the fault lines in the global political environment are such that they do not themselves allow for a consensus document then there is very little India can do about it." Indeed, seen from the perspective of Indian foreign-policy priorities, of India's position in the world, and of Mr Modi's Bharatiya Janata Party (BJP), the presidency has been a resounding success.

Ever since independence in 1947, India's foreign policy has prioritised relations with the poor world, chiefly through its leadership of the Non-Aligned Movement. Under Mr Modi, India has renewed this focus through a promise to represent and lead what has come to be called the "global south". At the start of its presidency, India ▸▸

convened a "Voice of Global South Summit" of 125 countries to inform its G20 priorities. As its presidency comes to a close, it has championed the inclusion of the African Union in the G20, which would do much to boost India's claim to be a leader of the poor world.

Second, the presidency has helped boost India's image in the world in a year when it outgrew China to become the world's most populous nation and its GDP is among the fastest growing of any major economy. By holding events across India, the government has showcased the breadth and diversity of the country. In a recent interview Mr Modi boasted that over the course of the year 100,000 delegates from 125 countries experienced the magic of India, and 15m Indians took part in the events in some form.

Lastly, the presidency has served as a vehicle for the personality cult of Mr Modi domestically, ahead of a general election next year. Like citizens of other big democracies, Indians have little interest in foreign affairs. The G20 has brought the world home, with nightly cable-news television debates giving it plenty of airtime. These tend to focus on Mr Modi himself as sage leader, not just of India but of the world, and attribute to him India's rising importance. In a survey earlier this year by Pew Research Centre, an American pollster, 68% of Indians said they felt their country was growing in influence on the global stage. Among those who do not support the BJP, the figure was a still impressive 60%. In 2008 China used the Beijing Olympic games as a "coming-out party" to show itself off to the world. For India and for Mr Modi himself, the G20 has served much the same purpose. ■

Banyan Hanoi upgrade

Joe Biden's visit to Vietnam reinforces a bid to counter China

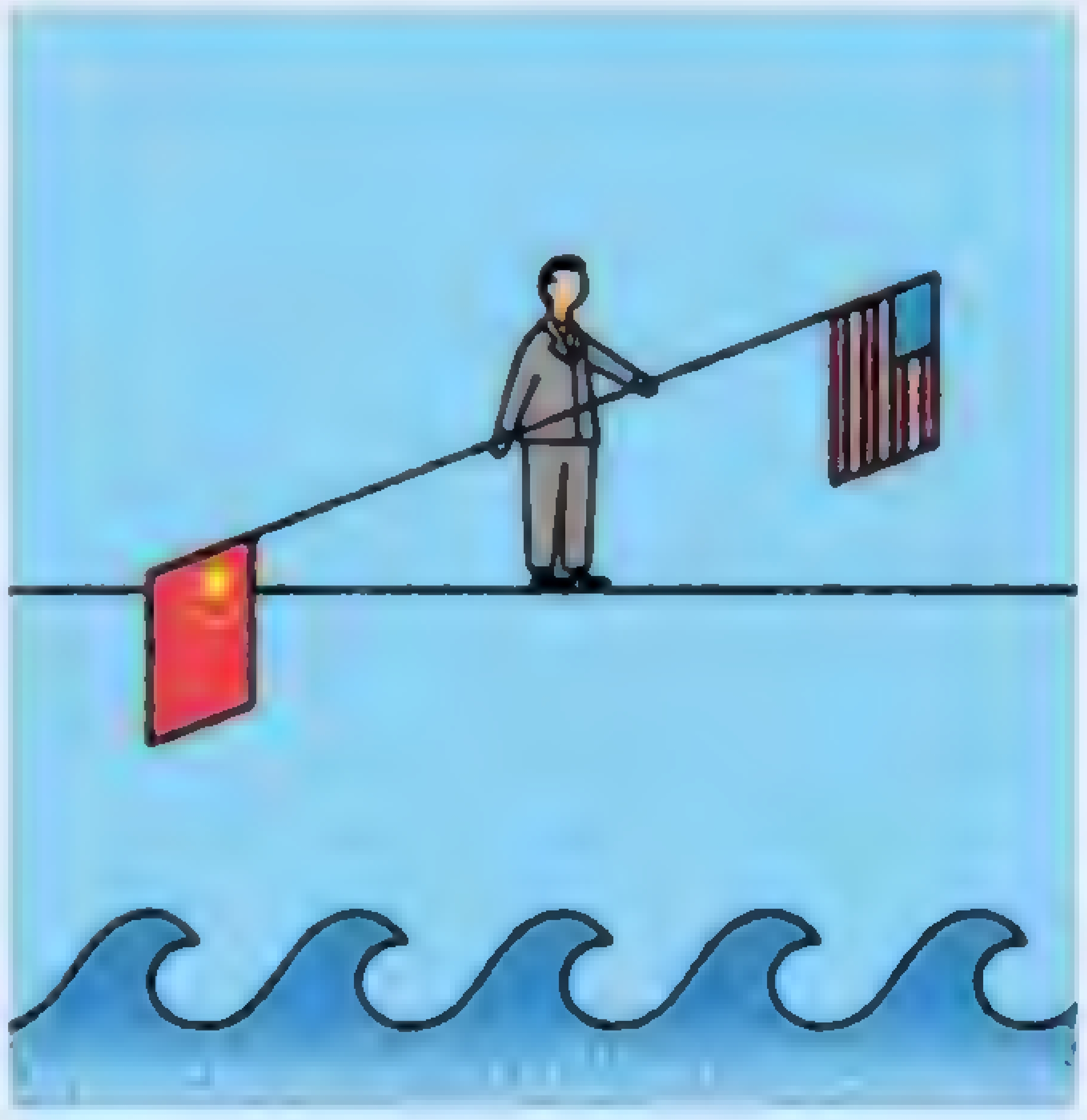
Skipping an ASEAN talkfest in Jakarta and hot on the heels of the G20 meeting in Delhi, Joe Biden is set to make a state visit to Vietnam on September 10th. He is the fifth sitting American president to travel to the land of the former enemy. Yet his trip is surely the most significant since Bill Clinton's in 2000, after he re-established diplomatic ties and drew a line under a bloody and bitter past.

Since then relations between the champion of the free world and the world's second-biggest Leninist dictatorship, which governs nearly 100m people, have only improved. That has been visible in America's ascent in Vietnam's carefully constructed hierarchy of relations with foreign countries. For a decade, the two countries' relationship has been defined as a "comprehensive partnership". When Mr Biden meets the general secretary of the Communist Party of Vietnam, Nguyen Phu Trong, America looks set to get a rare upgrade, to a "comprehensive strategic partnership". Quite some rehabilitation, on both sides.

Campaigners at home will accuse Mr Biden of cosying up to a regime with an appalling human-rights record. But he is bent on countering Chinese sway in the Indo-Pacific region. The trip is part of a strategy in which overlapping security initiatives create a spreading latticework on China's periphery. Vietnam's biggest security worry is Chinese encroachment in the South China Sea and harassment of fishing boats and oil-and-gas exploration vessels in Vietnamese waters. America lifted a ban on arms sales to Vietnam in 2016 and has since sold it two coastguard cutters. More defence initiatives may come out of this trip. After also strengthening its military relationship with the Philippines, America may be planning to challenge China more robustly in the South China Sea.

For America, economic security, again with China in mind, will also be a goal in Hanoi. American planners have made "de-risking" a key foreign policy. They mean reshaping trade and supply chains to bring China-based production home or to friendly countries, as well as cutting China off from American investment and know-how in high-tech areas, including quantum computing, AI and advanced chips. Vietnam, a growing production base with a bright, young workforce, is a prime candidate for "friendshoring". More American investment would also add heft to threadbare official promises of more economic engagement in the region.

As for Vietnam, much hangs on the upgrade. The country has become a linchpin in global supply chains. America is its biggest export market. As Le Hong Hiep of the ISEAS-Yusof Ishak Institute in Singapore points out, America is seen as a source of high-quality investment. Intel, a major chipmaker, has poured over $1.5bn into Vietnam. America also has plenty of green tech to offer. That matters in a country with ambitious climate goals that wants to get away from labour- or resource-intensive industries. More defence engagement with America not only helps in the South China Sea, but also provides alternatives to Vietnam's reliance on Russian weapons. Already of questionable quality, they have been in short supply since Russia invaded Ukraine. Vietnam wants help building its own arms industry.



China, not surprisingly, is unhappy. It condemns Mr Biden's thickening of ties with Vietnam as more evidence of America's "cold-war mentality". It will also be miffed that, with the diplomatic upgrade, America will join a select club of only China, Vietnam's inescapable northern neighbour, and Russia, its backer during the war against America.

Yet Mr Trong and colleagues have gauged that China will do little more than harrumph. Vietnam has millennia-old experience of having to handle its sometimes hostile neighbour. Fraternal ties between the two Communist parties help regulate relations. Vietnam's leaders have gone to lengths to reassure China over the Biden visit. They know how valuable Vietnam is to China: ASEAN is China's biggest export market, and Vietnam its biggest market among ASEAN members. If, says Mr Hiep, China shows its displeasure through more harassment in the South China Sea, why, that would be nothing new.

Some in America think Vietnam can be reeled into its camp. That is wishful thinking. The regime's calculation has never been to side with America. More likely, it is to balance adroitly between it and China. Better now to attempt a middle path than to leave it until relations between the two great powers lurch even more dangerously downwards.

The Belt and Road Initiative

Where to from here?

PIRAEUS AND VIENTIANE

Now ten years old, the Belt and Road Initiative has achieved mixed results for China—and other countries are pushing back

THERE WAS little hint in the speech that Xi Jinping gave on September 7th 2013 in Kazakhstan that he was thinking of a concrete-pouring binge across the world, spurred by hundreds of billions of dollars in Chinese loans and investment. No one predicted that the project would become a defining feature of his foreign policy and dramatic symbol of China's rise as a global power. Mr Xi talked of building an "economic belt" along the ancient "silk road" linking China with Europe. He called for better infrastructure and reduced barriers to trade. If he had a grand plan, the lede was buried amid musings on history and Kazakh poetry. The West was in for a shock.

China is about to celebrate the project's tenth anniversary with fanfare. It will tout the Belt and Road Initiative (BRI), the scheme's official name in English, as a gift to the world that has created huge economic benefits. China claims that 420,000 jobs have been created in BRI countries and 40m people lifted out of poverty thanks to BRI-generated growth. America, and many of its allies, see the BRI as far less benign: a political tool aimed at stifling foreign criticism of Mr Xi's iron-fisted rule and providing a leg-up for his country's firms that has saddled countries with crippling debt.

Among rich countries, China's BRI festivities will do nothing to allay anxieties. The highlight will be a Belt and Road Forum, which is due to take place in Beijing in October. World leaders have been invited, but none from the West is expected to attend. The most prominent guest will be Russia's Vladimir Putin. His presence, alongside Mr Xi, will highlight what many in the West see behind the BRI veil: an attempt by China to sell an alternative model of development that eschews democracy and creates a world safe for dictators. In the build-up to the event, China has been struggling to keep on board the one G7 member that has signed up to the scheme—Italy. Its deputy prime minister, Antonio Tajani, has just visited Beijing with a message: his country may pull out.

More resistance is expected at a meeting of the G20 in Delhi on September 9th and 10th. President Joe Biden will offer an alternative vision of helping poorer countries by beefing up the role of the World Bank and the IMF—institutions that his national security adviser, Jake Sullivan, said were "founded on and continue to embody US leadership". These, he added, would provide "the most bang for our buck" in countering China's "coercive and unsustainable lending". For unclear reasons, Mr Xi plans to skip the gathering.

When the BRI was launched, there was little sense of an impending struggle between China and the West over something so innocent-sounding as building roads and railways, ports and pipelines. Mr Xi's speech in Kazakhstan barely raised eyebrows. Neither did another one he gave in Indonesia, nearly a month later, in which he called for a "maritime silk road". It was not until the following year that Mr Xi began using a shorthand for these two ideas—"one belt, one road". Some Western officials did wince at that: the term sounded too China-centric and simplistic for what was beginning to emerge as a complex scheme involving scores of countries. So China tweaked the name for foreigners (not in Chinese). In 2015 it became the BRI. ▸▸

That was before relations between China and the West, already prickly and mistrustful, began to spiral downwards. Donald Trump would not become America's president until 2017, unleashing a trade war with China that would become part of a broader campaign by America against China's norm-changing global behaviour. It was four years before the European Union began calling China a "systemic rival". The mass internment of Xinjiang's Muslims and the sweeping clampdown on dissent in Hong Kong were still well in the future. Even in the West, China found open doors. Eighteen of the EU's 27 members have signed up to the BRI.

One of them is Greece, which suffered an economic meltdown in 2009. China was already in place. In 2008 COSCO, a Chinese state-owned shipping giant, had reached an agreement to lease two container piers at Piraeus, the country's main port, in the south of Athens. In 2016 Greece, then under pressure from its financial rescuers in the EU and the IMF to generate funds by privatising state assets, took a step further. It agreed to sell a 51% stake to COSCO in the entire facility. For the first time, a European port would be controlled by a Chinese firm. In 2021 it bought another 16%.

China was triumphant. Its officials called Piraeus the "dragon head" of the BRI in Europe. After a visit in 2019, Mr Xi said the port was proof that the BRI was "not a slogan or tale, but a successful practice and brilliant reality". It is certainly impressive. At the beginning of COSCO's involvement, Piraeus ranked 93rd among container ports worldwide. Now it is in the top 40. Colossal blue cranes, made in China, unload containers from ships that, pre-COSCO, would have been too big for the port to handle. Since the firm arrived and began a massive upgrade, container-handling capacity at Piraeus has grown more than four-fold.

But if China had hoped that gaining control of a vital port would give it enduring political clout in a country that is a member both of the EU and NATO, it may be disappointed. After granting COSCO control, Greece blocked EU statements attacking China's behaviour in the South China Sea and its human-rights record. However, a more pro-American government took over in 2019. "Greeks no longer see China as a saviour for their economy. In fact, polls show an increasingly defiant Greek public," said a report in 2021 by the Carnegie Endowment for International Peace, a think-tank in Washington.

In recent years, attitudes towards China have changed considerably across Europe. The EU has tightened the screening of foreign investments for possible security risks. There are only a few big BRI projects in Europe. One is a high-speed rail line being built between Hungary and Serbia, funded by Chinese loans. China's eventual hope is to link it with Piraeus, but North Macedonia and Greece are still mulling how to proceed with their sections.

China's presence is far more extensive in Africa, where it had been a big player long before the BRI was proposed. The scheme boosted China's involvement in big infrastructure projects, from railway lines to ports. Sub-Saharan Africa has soaked up a large share of BRI lending. But as countries have become laden with debt, many loans have turned sour. For China, Africa has become a financial quagmire.

A trap for whom?

China's banks were willing lenders, but hard-nosed. Much of the credit was granted on commercial terms. The banks have been resisting Western calls to help African states by writing off some loans. But in June China joined other foreign government creditors in reaching a deal with Zambia over how to restructure billions of dollars in debt, much of it owed to China. That was a shift. China normally prefers to resolve such problems in secretive bilateral talks. Still, it did not agree to a haircut.

Some Western officials complain that China has been setting "debt traps" to ensnare unwary recipients of BRI lending: the idea being that when a borrower defaults, China can extract concessions, such as ownership of vital infrastructure. One alleged example involves a Chinese firm's takeover in 2017 of Hambantota, a Chinese-built port in Sri Lanka, after the country's government struggled with debt. But there is little proof of any deliberate trap having been laid, there or elsewhere.

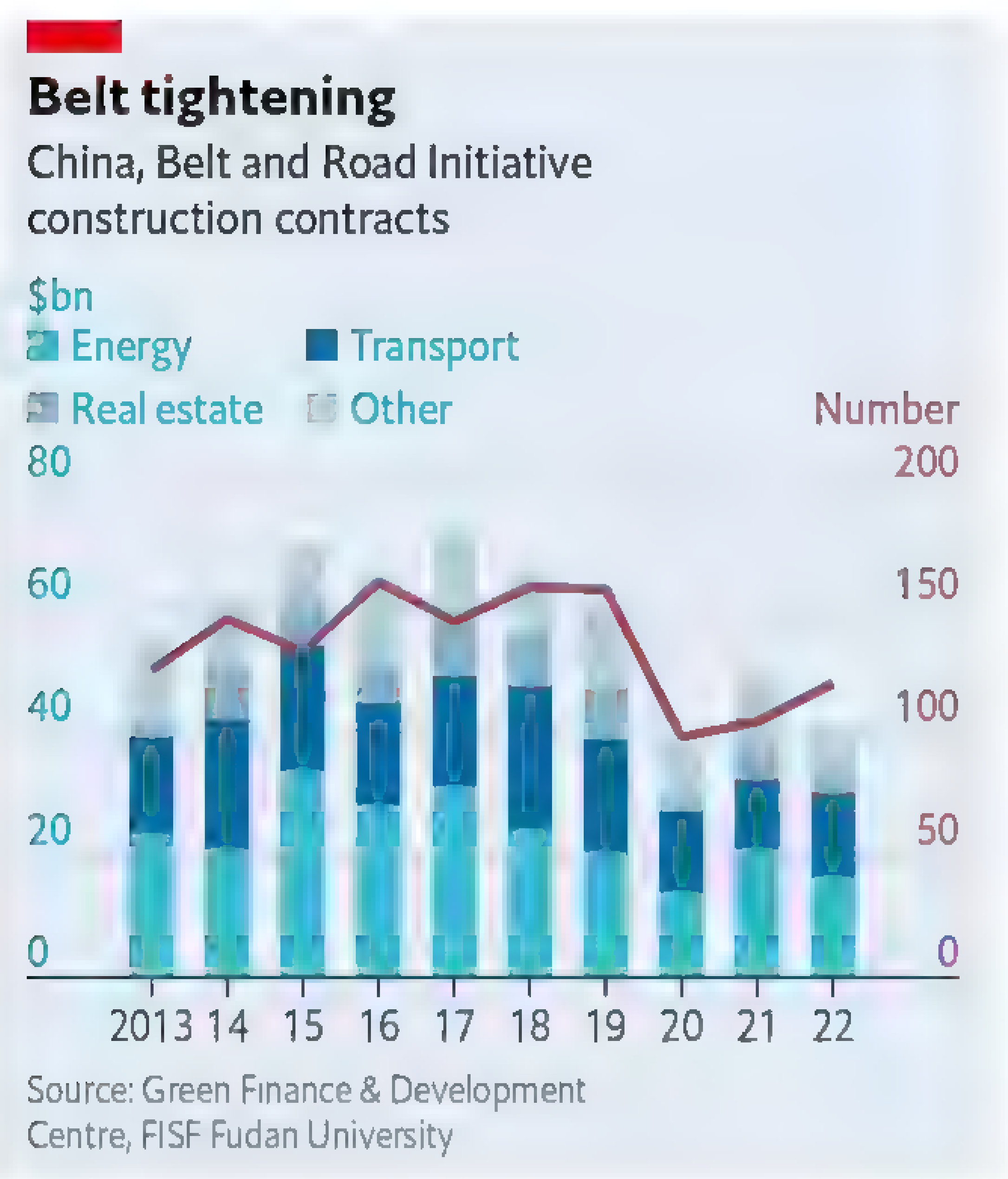
Rather, China's banks have been ensnaring themselves by lending without proper assessments of risk. Now they prefer to keep borrowers afloat rather than let them sink. Between 2016 and 2021 they extended $185bn in bail-out loans, according to a report by AidData, an American research group. It says that in 2010 less than 5% of Chinese lending abroad supported borrower countries in distress. By 2022 that figure had risen to 60%. China's banks have been relatively tough-minded about this kind of lending, too. AidData—writing in March—said interest on a rescue loan from the IMF was typically 2%. The average rate on a Chinese one was 5%.

China may be learning lessons. Having reached a peak in 2016, its outbound lending has fallen, according to the Rhodium Group, another research firm. "China's big banks are re-evaluating their lending practices after high-profile stumbles," it says. In 2020 China's new lending to African governments was less than $2bn. This was the lowest amount since 2004.

It has been a similar story in Pakistan, a close ally, where a flagship BRI enterprise has involved talk of as much as $60bn of spending (though only about half has materialised) on megaprojects such as road upgrades and power plants. Known as the China-Pakistan Economic Corridor (CPEC), it aims to stimulate trade across their mountainous border and down to the port of Gwadar more than 1,500km to the southwest. China has managed Gwadar since 2013, but the port's development has involved nothing like the success of Piraeus. It has been beset by militant violence and Pakistan's political strife. The country's binge of CPEC-related borrowing has helped to foment a debt crisis. It has been turning to the IMF, and China, for help.

But China remains wedded to the CPEC idea. In countries around its borders, the ▸▸

Sources: Green Finance & Development Centre, FISF Fudan University; IISS; Mercator Institute for China Studies; *The Economist*



BRI has an added layer of importance. China sees its help with infrastructure-building as a security guarantee as well as a commercial opportunity, in some cases providing alternative land routes for its energy imports that would bypass the Malacca Strait, a choke point that America could throttle. In Pakistan's case, China hopes for multiple dividends. A prosperous Pakistan, it reckons, could act as a counterweight to India, China's rival. It would be less likely to foment violent extremism that could spill over into neighbouring Xinjiang. Western security experts speculate that Gwadar could become a base for China's navy (despite rumours, there is no firm evidence that it is building one there).

In parts of the world, the BRI will become less bold and brash. But for security and economic reasons, China will keep pursuing the idea in its own backyard. The International Institute for Strategic Studies (IISS), a think-tank in London, says that South-East Asia will be a particular focus. "No region is more strategically important" to China, it says. Amid growing tensions with the West, China is becoming more concerned about its economic security. "It wants to use the BRI to create alternative markets for its goods and alternative links in its supply chains," the IISS says, particularly for China's high-tech products. South-East Asian countries are critical to those chains.

Progress is being made. In 2021 China finished building a new rail line, costing nearly $6bn, connecting the Chinese city of Kunming with Vientiane, the capital of Laos, one of Asia's poorest countries. The 422km section in Laos cuts through mountains still dotted with unexploded American bombs from the Vietnam war. Nearly half the track is in tunnels.

In April passengers began using the line to cross the border. The journey from Vientiane to the Chinese frontier, once a bumpy day-long drive, is now a smooth 3.5-hour ride. Lao farmers have begun to plant high-value crops such as durians to sell to China by train. "US dropped bombs in Laos, China builds railways" said a recent headline in *Global Times*, a tabloid in Beijing. This is a recurring feature of the BRI's message: China is benevolent and America is a bully. Among some people in Laos, it strikes a chord. China is "the big brother that we can learn from", says Phouphet Kyophilavong of the National University of Laos.

But polls suggest that in countries near to China, publics are more wary of Chinese influence, which they see as growing. In conversations in Vientiane, Lao analysts often criticise their government for failing to extract more benefits from Chinese projects. They say Laos spends so much on debt servicing that it has neglected critical needs such as education.

Laos is up to its neck in debt. At the end of 2022 it owed $10.5bn to foreign lenders, the equivalent of 84% of its GDP. About half of the money had been borrowed from China. Last year Laos's foreign-currency reserves fell so low that it struggled to buy fuel. Credit-rating agencies warned that it was close to defaulting. China has allowed Laos to defer debt repayments.

China sees the China-Laos railway as one leg of a much longer rail network that it hopes will eventually connect Kunming with Singapore. For China, the line's success will depend not on how it is used by Laos's population of 7.5m. Far more important is laying track through richer Thailand, which has ten times as many people. Work on that is under way, though completing the project region-wide will be dogged by messy politics in Thailand and Malaysia, tough negotiations over project terms (Laos was relatively easy-going) and wariness among some local lawmakers about being drawn too close to China.


The dragon's head

It can be difficult to discern what the BRI really is about. It is often compared to the Marshall Plan, America's funding for rebuilding Europe after the second world war. But it is not that. Very little BRI activity involves aid. Indeed, many BRI countries are relatively wealthy. Globally more than 150 have signed up to the scheme. About half of them are labelled as upper-middle or high-income by the World Bank. The silk-road language is misleading. There is no geographic bar to joining.

But it is becoming clearer how it might morph. In 2015 China said the BRI would also create a "digital silk road", a fancy way of describing the pursuit of business abroad by Chinese companies—state and private—in industries such as telecommunications and cloud computing. The West, especially America, worries that China aims to capture markets with its low-priced, cutting-edge technologies in ways that could threaten Western security and intrude on personal freedoms. America's tech battle against China is, in part, a response to such fears.

As countries deal with debt shocks and China struggles with weaker growth at home, BRI language is becoming more cautious. In 2021 Mr Xi called for a new phase emphasising "small but beautiful" projects. These would have higher standards and better returns, and involve industries like green energy and digital infrastructure. China would stop building coal-fired power plants abroad, he said. Even during the pandemic, China's greenfield investments in digital technology abroad steadily increased, says the IISS.

In state media, new ideas proposed by Mr Xi have begun to vie with the BRI for attention. The Global Development Initiative, the Global Security Initiative and the Global Civilisation Initiative are concepts rather than action plans, but with strong implicit messages: that China's development model is better for poorer countries than Western templates stressing human rights, that Western military alliances threaten world peace and that criticism of Chinese communism amounts to a racist attack on China's ancient culture.

But the BRI is far from being abandoned. In the build-up to next month's summit in Beijing, a message is being promoted by China's official media. It is that the scheme is Mr Xi's cherished project. As an obvious tribute to him, the Communist Party agreed in 2017 to enshrine the task of pursuing the BRI into its charter, thus making it a heresy to doubt it. Reports on state television show Mr Xi visiting projects around the world, as if delivering China's wealth in person. An article in August praised him for "opening up a 'happy road' that benefits all countries". The BRI, in other words, has plenty of life left in it. ■

Chaguan | The Belt and Road, seen from China

A slowing economy saps public enthusiasm for megaprojects far from home

For years Xi Jinping has been inviting the world to hitch a ride on the "express train of China's development". The slogan is a Xi favourite, wheeled out when the Communist Party chief talks to foreign leaders about economic co-operation, especially via the Belt and Road Initiative (BRI), a global infrastructure programme launched a decade ago this month.

To foreign critics, such swaggering talk is a blunder. Yes, they aver, local elites in poor countries may welcome Chinese envoys bearing loans to pay for new airports, dams and other infrastructure. But ordinary citizens have increasingly turned against such vast projects, and who can be surprised? An express train looks very different to those riding first-class, as opposed to those who must live hard by its tracks. With this in mind, some foreign politicians and analysts wonder whether China may shunt the BRI into the sidings, as a trillion-dollar, reputation-harming mistake.

In fact, China is redesigning the BRI—but to save it, not scrap it. Foreign unhappiness is one reason, for some of China's most reliable friends in Africa, Asia and beyond are struggling with BRI debts. But critics in the West risk missing another big reason for a redesign. As China's economy slows, Mr Xi's own subjects are growing more sceptical of the scheme, notably in places where locals' hopes of a BRI-fuelled boom have faded. China's leaders are aware of this discontent. Later this month the State Council Information Office will publish a white paper to mark the BRI's tenth anniversary. An adviser to that project describes his counsel to propaganda officials: emphasise the scheme's benefits to ordinary Chinese back home, with concrete examples.

To gauge this mood Chaguan headed to the Dongchuan international rail centre, a logistics park in the north-western province of Gansu. It sits on the edge of Lanzhou, the provincial capital, in a valley between arid brown mountains. Once, Lanzhou hoped to cash in as a railhead for cargo trains to Central Asia and Europe. Local officials talked of hosting foreign consulates, in an echo of its past as an important stop for Silk Road camel caravans. The Dongchuan rail yard does see trains bound for Europe, and state media recently talked up a new rail-and-road cargo route to Afghanistan. But it is strikingly quiet on a weekday morning, with a few Chinese-made cars being driven around for loading onto transporters. More prosperous provincial capitals, such as Chengdu, Zhengzhou and Xi'an, have fared far better as BRI transport hubs. Indeed, total foreign trade each year to and from Gansu, a poor province, has actually fallen since 2013.

The party can take some comfort in public opinion. Locals strolling near the rail yard talk without prompting of China's generosity. Ms Luo, a retired scientific technician, calls the BRI a sign of China's strength. "It's good that China is helping others," she says, loyally noting that local youngsters have found work with logistics companies building warehouses nearby.

Just beyond the Dongchuan depot lies Hekou, an old Silk Road town restored as a tourist site. Its Qing-dynasty customs hall and street market are a bit forlorn, truth be told, and a nearby highway is loud. Still, a local driver, Mr Su, has brought a few out-of-town Chinese tourists there. Mr Su sees China as exceptionally benevolent, and grumbles about foreigners who accuse the BRI of advancing "aggressive goals". China is different, he asserts: "Western people think about how things will affect them, but Chinese people have a spirit of sacrifice." That said, Mr Su concedes that Lanzhou has not gained as he had expected from the BRI, and that state media sometimes exaggerate China's good deeds. National leaders see the big picture, he says carefully. But he admits: "From the perspective of an ordinary person, I think it is not that necessary to spend a lot of money in faraway foreign places like Africa."

In Lanzhou's Baitashan Park, overlooking the Yellow River, a pensioner takes a break from dancing with friends to say that ordinary people struggle to understand the BRI. China saw inadequate returns on ten years of large investments in poorer countries, he suggests. His sense is that the scheme is now shrinking. That canny pensioner is right. Signs abound of a move away from new, large investments with only long-term returns.

Smaller projects, larger ambitions

China is shifting towards "small and beautiful" projects, says Zhu Yongbiao, head of Lanzhou University's BRI research centre. Smaller projects generate benefits quickly and give local people a greater "sense of ownership". Mr Zhu calls this shift a response to changing politics in recipient countries and to the demands of the Chinese people, some of whom think of the BRI as "free money" for foreigners. He sees infrastructure schemes proposed by America and the European Union as welcome competition, as long as "Europe and the United States are willing to put up real money".

Wang Yiwei, director of the Institute of International Affairs at Renmin University in Beijing, says that with less money of its own to lend, China is in search of global finance for the BRI, including from rich Muslim countries. That is one reason why Saudi Arabia joining the BRICS grouping and reconciling with Iran, with Chinese backing, is "very important", he says. Beyond that, rather than funding and building megaprojects, China's focus is increasingly on questions of governance, for Chinese leaders see norms, systems and standards as the key to sustainable development. The BRI was created to solve China's economic problems, he argues. Now its mission is to save globalisation from populism and from those voices calling for division and decoupling.

Mr Xi will host foreign leaders at a BRI Forum in October. Delegates may expect much talk of China's inclusive model, and of how it respects the political and legal traditions of different countries, unlike judgmental Western democracies. China may fund fewer foreign railways in coming years. When it comes to setting norms and standards, its ambitions are going global. ■

Iran

A brittle victory

Iran's zealots have tightened their grip but its protesters await their next opportunity, unbowed

IRAN'S AYATOLLAHS should, by rights, be triumphant. Their bully-boys have muzzled the cries of "woman, life, freedom" that reverberated around the country a year ago after a young Kurdish-Iranian woman, Mahsa Amini, died in custody for showing her hair. They have purged universities of critics, silenced disapproving media outlets and rounded up activists along with their family and friends. A new bill going through parliament will revive the morality police (who were disbanded in the wake of the protests) and introduce new punishments for those who violate their dress codes. The regime is cutting deals with friends and foes alike to help it tighten its political and financial grip. Oil exports are back to levels not seen since the Trump administration reimposed sanctions in 2018. And yet, unlike during previous crackdowns, the mullahs still sound nervous. "They know the genie is out of the bottle," says a teacher in Tehran.

The commitment of many Iranians to regime change is unwavering. The authorities have not fully regained control of public space. Women must wear a headscarf to get treatment in state hospitals or service in banks. But on the streets many forsake the mandatory coverings, some defiantly sporting shorts and tank-tops. Such is their disdain for a theocracy that shot women for discarding the veil, even conservative fathers let their daughters dress as they choose. In July many Iranians boycotted the once popular religious processions that Iran's leaders organise for Ashura, a big Shia commemoration. And growing numbers are using cash instead of credit cards to avoid paying tax to a regime they consider illegitimate. The next uprising, says a young professional in a café in the capital, is only a matter of time.

The regime has given up hope of regaining popular support. Instead it is relying on a narrowing base of ever more extreme loyalists. "We're moving ever further from democracy to dictatorship," says one Iranian academic. The supreme leader, Ayatollah Ali Khamenei, no longer aspires to lead an Islamic Republic, says another; he merely hopes to run an Islamic government. Meanwhile the government has alienated and radicalised reformists by closing their media outlets and booting out university professors, appointing religious singers in their stead.

As the regime's base continues to shrink, so does its capacity to run the country. More cabinet members of the previous president, Hassan Rouhani, had PhDs from American universities than their counterparts in the United States. The ministers of his successor, Ebrahim Raisi, mostly come from Imam Sadiq University, a private Islamic college in Tehran.

The repression has extended beyond ordinary Iranians. The age and ill-health of Mr Khamenei have strengthened the president's determination to secure his position. He treats his predecessors and their followers—both reformists and conservatives—as outcasts. The presidential candi-

→ Also in this section

dates who campaigned for reform in 2008 remain under house arrest. The release of sex tapes—allegedly involving various senior officials, though their identities and the authenticity of the videos have not been verified—has helped Mr Raisi make the case for a clean-up. Others are shoring up their position, too, including Mojtaba Khamenei, the supreme leader's powerful son. The Central Office, the nebulous government department which he is said to run, has replaced thousands of officials with his supporters, says a close observer.

Meanwhile, Iran's economy is drooping. Officials put annual inflation, which in 2017 Mr Rouhani had brought below 10%, at 47%. Mr Raisi has quickened the shift from subsidies for basics, such as bread, to cash handouts, but inflation has reduced their value. A third of Iranians now live on about $2 a day, according to official figures, up from a fifth ten years ago. Ministers have already raided the National Development Fund, the sovereign-wealth fund, to cover current spending and service loans. In 2018 it had about $150bn worth of financial firepower. Now it has just $10bn-20bn worth of ready money.

To make ends meet, the government is raising taxes. It is also imposing new fines. Police confiscate cars containing unveiled women and only release them on payment of not just a fine for that offence but also of all previous parking tickets. Professionals are fleeing abroad; 6,000 doctors are thought to have left this year alone. Tensions between the clerics and Islamic Revolutionary Guards, which flared during the protests, seemed to have eased, in part because senior commanders are rewarded with a share of the proceeds from sanctions-evasion and smuggling, particularly of huge quantities of subsidised petrol and oil exports. But some in the regime increasingly worry whether they can depend on the loyalty of lower ranks who struggle to feed their families.

Still, whatever its weaknesses, say the government's boosters, the population is weaker. Calls for a national strike last year threatened to tip the protests into a revolution. It stalled. Today few workers could afford to down tools. Iranians abroad noisily denounce the republic but they are largely powerless. Their fractious rivalries mean they hardly seem a credible alternative.

And Mr Khamenei has had some success finding help from abroad. His ministers have signed a strategic alliance with China and are now bidding for one with Russia. Iran has been invited to join the BRICS, the bloc of big emerging economies. Even erstwhile foes have boosted the regime. This month Iran exchanged ambassadors with Saudi Arabia, its historic rival for leadership of the Islamic world. And it is also making headway with an American administration consumed by Ukraine and loth to grapple with another global crisis, which the mullahs would surely unleash were their end nigh. After balking at a new deal, Mr Raisi's officials speak of negotiating a new agreement with America on curbing Iran's nuclear programme. This month the UN's International Atomic Energy Agency reported that Iran had slowed its enrichment of uranium. Despite continued American sanctions, Iran's oil exports are back to near maximum capacity. The regime, explains a former American official, has a lifeline "to recuperate for the next year or two".

But even that will provide only a brief respite. The theocrats' prospects look ever shakier as domestic support for them ebbs away and the gulf between Iran's leaders and its population of non-believers widens into a chasm. ■

Bulldoze the buried

CAIRO

Ancient beauty in Egypt may give way to ugly modernisation

IN THE CITY OF THE DEAD the living dwell beside the departed. Cairo's vast necropolis, which dates back to the seventh century, sprawls over a thousand hectares, its narrow, winding streets lined with the ornate mausoleums of Mamluk sultans and 20th-century revolutionaries. But it houses a breathing community, too: it is home to perhaps as many as half a million Egyptians.

Both the living and the dead are under threat. An Egyptian court is soon to decide whether the government can demolish parts of the necropolis to make way for a motorway bridge that it says will reduce congestion in a busy area. Tombs and houses began to be bulldozed in 2020, exhuming the dead and evicting the living. The government argued that the UNESCO world heritage site was in fact an unsafe slum. It seems determined to push ahead. In the City of the Dead, officials have been spraying the word *izala* ("demolish") with garish paint on tombs slated for destruction.

At first the outcry was mostly confined to residents and relatives of the interred. But opposition is growing. Critics point out that the demolitions will clear far more than is needed to build a motorway bridge, and worry that undisclosed property developments are also in the offing.

Their concerns are not far-fetched. In 2017 the government evicted residents from al-Warraq, an island on the Nile which it labelled a slum, and later said it would spend almost $900m to build a cluster of skyscrapers there. Ambitious plans published in 2017 by an engineering firm with links to Dubai sparked rumours that the project was backed by investors from the Gulf. In 2018 contractors razed dozens of buildings in Cairo's Maspero triangle, some dating back to the 13th century, to make way for a swanky development.

Like the Pharaohs, President Abdel-Fattah al-Sisi may want to leave his own monumental legacy, albeit one that may blot out chunks of Egypt's more ancient past. He has form. After the Arab spring, his government erased murals extolling the protests in Cairo's Tahrir Square. In their place Mr Sisi erected a large Pharaonic obelisk.

Grave danger

Railway diplomacy

Only connect

A new train line for the Middle East

FOR MORE than a century the geographical and political obstacles to a direct rail connection between Iraq and Iran have looked insurmountable. The Shatt al-Arab, the waterway formed by the convergence of the Tigris and Euphrates rivers, divides their southern border. The frontier also marks a cultural fault line, between the Arab and Persian worlds, which has been a source of conflict for millennia. Little wonder that when the great powers built railways to Iraq in the early 20th century they preferred to cut through the Taurus mountains in Turkey, cross the Nile in Egypt and traverse Syria's deserts rather than brave any routes via Iran (see map).

No longer. Such is the pull of its eastern neighbour that Iraq has promised to fill the gap of 32km that separates their railways, by 2025. On September 2nd Iraq's prime minister, Muhammad al-Sudani, joined Iran's vice-president, Muhammad Mokhber, to lay the foundation stone at Basra in Iraq for the new stretch. Within 18 months, say his officials, the network will serve 3m people. By straddling the border it will provide a fast track to Iraq's premier tourist sites, the Shia holy shrines of Karbala and Najaf. It should also facilitate trade into Central Asia and on into China by reconnecting Iraq to the silk route from which Baathist rule severed it.

Iranians are cheering, too. Their government has been extending transport links to its seven neighbours in order to bypass Western sanctions and isolation. In July it reopened a railway to Afghanistan. Another line already connects Iran to China via Turkmenistan, Uzbekistan and Kazakhstan. Iran is also working on a 164km line to the border with Azerbaijan. Once that is complete, Iran could serve as Russia's bridge to the Indian Ocean via the port of Bandar Abbas. The new stretch to Iraq will boost bilateral trade, which Iranian officials reckon will reach $12bn this year, and provide a link to Latakia, the port on Syria's Mediterranean coast where Iran has a leasing arrangement.

But not all are thrilled. Arabs fear the railway will shunt Iraq further into Iran's embrace. Kuwait, which has long proposed a rail link from Iraq to its own ports, feels rebuffed. The Saudis opened a line close to Iraq's border last year and are waiting for the Iraqis to build their section.

Iraqi traders fret that their government will stop developing the country's own port, at Faw, and use Iranian ones instead. "We should be reopening our railways from Basra, to Turkey and Europe," says Amer Abdul-Jabber Ismail, an Iraqi ex-transport minister. "We're just serving an Iranian and Syrian agenda instead." ■

Preventing putsches

Bluster and bluff

DAKAR

Deterring coups in Africa is getting much harder

AFRICA'S YOUNG democrats often employ only black humour at the frequent sight on TV of uniformed men announcing that they have overthrown the government. Some find levity in discussing the sartorial dilemmas they must face (dress uniform or camouflage, beret or bare head?). Others mock state television stations for running interminable wildlife documentaries to avoid screening the unfolding chaos.

Jokers would once have had little to work with. In 2000 the African Union (AU) set out a "no coup policy" based on the threat of swift suspension from African institutions, isolation and sanctions. Regional blocs like the Economic Community of West African States (ECOWAS) held a firm line, too. It seemed to work. In the 1990s Africa suffered 16 successful coups. In the 2000s that fell to eight, a figure that was repeated in the 2010s. Yet since the start of 2020 there have been nine successful coups, including one in Gabon on August 30th. What happened to deterrence?

In the early 2000s, if the AU suspended a country, it would be shunned by everyone who mattered (at the time, mainly Western countries and financial institutions), according to Liesl Louw-Vaudran, who is based in South Africa for International Crisis Group, a think-tank. That would leave it diplomatically and financially isolated. Yet since Russia and China have become more influential in Africa over the past decade, juntas have been able to look to them for diplomatic cover. Imposing sanctions has become patchier.

Great-power rivalry is also influencing how Western countries are responding. Since the coup in Niger in July, America seems more preoccupied with holding on to its drone bases and keeping Russian mercenaries out of the country than in reinstating Mohamed Bazoum, the ousted president. That puts it at odds with ECOWAS and France, which have pushed strongly for his restoration.

As military governments proliferate, aspiring coup-mongers know they can rely on the support of other juntas, weakening sanctions still more. They also learn from each other. The single biggest lesson is simple: impunity reigns. Since the latest spate of coups began in Mali in 2020, not one country has returned to civilian rule.

They also learn how to ride out international pressure. ECOWAS has tried border closures, freezing assets in the regional central bank, and cutting off electricity supplies. These make life harder for the general population. So juntas have grown skilled at shifting the blame to ECOWAS or former colonial powers, such as France. Sanctions that target junta members and their families with asset freezes and travel bans are more potent, but not enough. The shopping is better in Paris than St Petersburg, but not by much.

Another problem is hypocrisy. Less than a fifth of AU members are rated as free by Freedom House, an American watchdog. Ivory Coast and Nigeria are leading the ECOWAS charge to overturn the coup in Niger, by force if necessary. Yet the Ivorian president, Alassane Ouattara, twisted the constitution to run for a third term and Bola Tinubu's election as Nigeria's president was marred by irregularities. This week the Economic Community of Central African States (ECCAS) suspended Gabon at a meet- ▸▸

Dress for success

ing chaired by Teodoro Obiang, Equatorial Guinea's dictator for 44 years.

Expediency is another factor. In Chad the constitution was clearly breached when Mahamat Idriss Déby took power with the support of the army after his father was killed by rebels in 2021. Yet the AU declined to call it a coup, in part because Chad is seen as a bastion of stability in a volatile region.

The converse is also true. In some cases, where the toppled government was particularly vile or ineffective, African and Western leaders have muted their criticism in the face of a seemingly "good coup". In Mali the elected president, Ibrahim Boubacar Keita, was overthrown in August 2020 after street protests against his failure to make progress in the fight against jihadists. The change in government offered "a window of opportunity for military, civilian and political breakthroughs", gushed Emmanuel Macron, France's president.

He was wrong. A few months after his glowing words the junta staged a second coup, ridding itself of the pesky civilian figureheads it had installed under pressure from ECOWAS. Before long it had invited Russian mercenaries into the country.

For African institutions, regaining the credibility to deter coups looks fiendishly hard. A threat by ECOWAS to intervene militarily in Niger was a rash attempt to do so. But it now looks like nothing more than bluster, which has further damaged the bloc's credibility.

Even if ECOWAS decides to send in troops, it would be a risky operation, particularly if the population and the army in Niger come out to defend the junta. As the taboo against coups weakens and the AU and Africa's regional blocs have too few tools to roll them back, expect more broadcasts by the men in fancy uniforms. ■

Nigeria

The perilous path of reform

LAGOS

President Tinubu's report card depends on who you ask

In a hair salon in Lagos, Nigeria's commercial capital, an argument breaks out over the new president's performance. "He's just starting," says a young man. His barber is less forgiving. "Is that not what they told us about [former president Muhammad] Buhari? The next thing, eight years have passed." Soon other staff and customers have joined the argument, pointing to the rising price of *garri*, (cassava flour) and soaring transport costs.

After hotly contested elections Bola Tinubu was inaugurated as Nigeria's president just over 100 days ago. He was determined to hit the ground running, and for a while, it looked as if he had. As promised in his inaugural speech, he removed an unaffordable fuel subsidy and ended a system of multiple fixed exchange rates. He also suspended the central-bank governor, Godwin Emefiele, who had played a big part in Nigeria's economic slide.

Ordinary folk may be grumbling about Mr Tinubu's reforms, but investors are delighted. The main index of stocks on the Nigerian exchange has risen by almost 30% since his inauguration. A lawyer at an investment bank whispers that if Mr Tinubu walked into her offices, everyone there would bow at his feet. Yet the president's initial clear-headed resolve appears to be giving way to indecision, poor preparation and in-fighting among his team. And it has not begun to deal seriously with Nigeria's daunting security challenges, which include a jihadist insurgency in the north.

Nigeria's fuel subsidy cost the state almost $10bn last year, the equivalent of 2.1% of GDP. Previous governments have renamed it, adjusted it and tried removing it, but Mr Tinubu's effort has been by far the boldest. Although the reform will free up cash that would be better spent on hospitals and schools, it is also causing pain. Petrol prices almost tripled overnight in some places, and transport fares followed.

To ease the pain the government is mulling a monthly cash transfer of 8,000 naira ($11) to the poor. But political squabbles over who will receive the assistance, and how, have delayed the programme's launch. Trade unions want the subsidy back. The president's spokesperson has ruled that out but, in a seeming contradiction, also promised to keep prices down.

Dual fuel

Changes in the foreign-exchange regime have also proved controversial. The previous administration tried to keep the naira artificially strong through currency controls, which resulted in shortages of dollars and a vibrant black market. Mr Tinubu's government scrapped this system and allowed the currency to float. Overnight the naira slumped by 34% against the dollar and it has continued to slide by a total of 63%. The move came so abruptly that it caused chaos in half-completed transactions. The timing also stoked anger, since the devaluation was just before the start of the new school term in America and Britain, when there is a surge in demand for hard currency to pay the fees of the more than 100,000 Nigerians who study abroad.

Mr Tinubu appears to have been less reform-minded when it came to belatedly filling his cabinet seats. Although he has a reputation for having built strong teams during his tenure as governor of Lagos state from 1999 to 2007, his new administration is remarkably thin on technocrats. Instead he seems to be repaying political favours and shoring up support. No fewer than nine former state governors now have cabinet posts.

This lack of technical expertise is a shame, because Mr Tinubu's policies are facing unexpected headwinds. In August, when the central bank published its first audited accounts since 2015, these revealed a huge hole in the country's foreign reserves. More than 40% of the $34bn in foreign reserves the bank held at the end of 2022 were encumbered, either as collateral for loans from foreign banks or by being tied up in forward contracts. Nigeria officially claims to have enough foreign currency to cover almost eight months of imports, but, after subtracting these obligations, that falls to little more than four months, leaving it vulnerable to external shocks. "[The central bank] still does not have any firepower to anchor the market... and calm things down," says Feyi Fawehinmi, a political commentator.

The combined impact of the currency devaluation and the removal of the fuel subsidy is reflected in consumer prices. In July the annual rate of inflation hit 24%, its highest since 2005. Some reckon it may reach 28% this year. This is raising questions over whether Mr Tinubu will be able to hold his nerve or be forced to reverse course, particularly in the face of rising fuel prices. Yet turning back would certainly deepen Nigeria's economic malaise. ■

The French presidency

After Macron

PARIS

A premature and undeclared succession race

IN A MEMORABLE phrase that captured his precocious ambition four years before he ran for the French presidency, Nicolas Sarkozy confessed in 2003 that his mind was focused on the top job and "not only when he shaved" every morning. The comment marked the start of his long and fractious struggle to succeed his boss, Jacques Chirac, which he did in 2007. Today, four years before the French elect a successor to their current president, an undeclared race to take over from Emmanuel Macron is also breaking out among his present and former lieutenants.

The French constitution allows a president to serve only two consecutive terms (though after stepping down in 2027, when he will be only 49, Mr Macron could stage another bid five years later). This still leaves him plenty of time to try to reshape France, and he gives no sign of tiring of the job, nor of shrinking ambition. He vowed recently to keep governing "until the last quarter of an hour" of his term.

Yet would-be successors from within Mr Macron's broad centrist camp are keenly aware not only that there is no single natural successor among them, but that they cannot leave it too late if they are to stand out. On everyone's mind is the need to find a credible candidate to take on the hard-right Marine Le Pen, whom Mr Macron has twice defeated in a final run-off vote for the presidency. Three front-runners seem to think they have what it takes.

The showiest is Gérald Darmanin, the tough-talking interior minister, appointed by Mr Macron to secure his right-leaning flank. On August 27th he staged a big political event, over *saucisse* and chips, in the industrial northern city of Tourcoing, where he was formerly mayor. Ostensibly to discuss political strategy, the happening carried more than a whiff of personal ambition. Elisabeth Borne, the prime minister, was hastily dispatched to the event to keep him in order. The son of a bar-owner and a housekeeper, Mr Darmanin is styling himself as a politician who—unlike the dry technicians who sit beside him in cabinet—understands everyday worries. If mainstream politicians cannot find a way to appeal to the working-class and middle-class vote, he declared, outlining a job description tailored to himself, Ms Le Pen's victory in 2027 will be "quite probable".

A more discreet but no less resolute aspirant is Edouard Philippe, formerly Mr Macron's prime minister (pictured, with Mr Macron). Like Mr Darmanin, he comes originally from the conservative Republican party, and tops polls as the most popular French politician with 55% approval. That is 13 points ahead of Ms Le Pen in ninth place and 18 points ahead of Mr Darmanin in 18th, according to Ifop, a polling group. Mr Macron trails in 23rd place, on 32%. A new poll out on September 3rd suggests that Mr Philippe is the candidate best placed to appeal to both the centre and the conservative right in 2027, well ahead of ▸▸

→ Also in this section

Mr Darmanin. This holds even among voters on the opposition right.

As French politicians do, Mr Philippe will mark *la rentrée*, or the return to work, by publishing a new book, outlining his vision and ties to France, on September 13th. After leaving government in 2020 he founded his own political movement, Horizons, which sits in parliament as part of Mr Macron's minority coalition. Mr Philippe is also mayor of Le Havre, a port city in Normandy. This gives him a convenient perch from which to appear semi-removed from daily political manoeuvring in Paris. Those who have seen Mr Philippe recently say that he is indeed firmly focused on preparing for 2027.

A third potential runner is Bruno Le Maire, the finance minister, yet another ex-Republican and the second-most-popular politician, with a 46% rating. More discreet in public about his personal aspirations, and more usually spotted in airless international-summit meeting rooms, he was to be seen this summer in shirtsleeves enthusiastically greeting holidaymakers on an Alpine mountain pass. Earlier this year the besuited technocrat raised eyebrows when he published a racy novel. Mr Le Maire has now been finance minister for the longest unbroken period of any under the Fifth Republic, created in 1958. But he may at some point feel that he needs to move on if he is to broaden his appeal and work on his own chances.

Others too are said to be mulling over theirs, including Jean Castex, another ex-prime minister, Yaël Braun-Pivet, head of the National Assembly, or even Gabriel Attal, the 34-year-old education minister. Each will have to tread a delicate line between the desire to remain loyal to Mr Macron, to whom they owe their jobs, and the political need to distance themselves from the unpopular president, who has faced strikes and rioting this year. Even if it were in his gift to anoint an heir, this might not do the anointee any favours.

Four years is a long time, and Mr Macron himself was a little-known back-room adviser that long before his first presidential bid. Nor is there any organised process within his party, Renaissance (formerly En Marche), to pick a candidate. The party anyway lacks roots, and may not in its current form even outlive the president.

Yet the threat of a Le Pen presidency lends the matter great urgency. The hard-right leader has been quietly biding her time, sitting politely on the opposition parliamentary benches and trying to look like a president-in-waiting. Mr Macron may not like to think about succession planning. But the most painful legacy for a leader who has done much to modernise France would be for his two-term presidency to be followed by her election, just as Barack Obama's was by Donald Trump's. ■

Ukraine's assassination programme

Crime and punishment

KYIV

Its agents have become expert in dark revenge

THE OPERATION was a month in the making. Yevhen Yunakov, the mayor of Velykyi Burluk, in an occupied part of the Kharkiv region, had been identified as a collaborator with the Russians. "Caucasus", a special-forces commander, and a group of local officers were given the job. His men watched their target meticulously for days: when he shopped; when and where he moved around; the extent of his security. Once they detonated their bomb, from a distance, they disappeared to safe-houses inside occupied territory. The group would return to Ukrainian-controlled territory only weeks later, after the town had been liberated. Yunakov's body has never been found.

Over 18 months of war, dozens of people like Yunakov have been targeted in operations clinically carried out across occupied Ukraine and inside Russia itself. They have been shot, blown up, hanged and even, on occasion, poisoned with doctored brandy. Ukraine is tight-lipped about its involvement in assassinations. But few doubt the signature of its increasingly competent security services.

The agencies themselves drop heavy hints. "Any person who betrays Ukraine, shoots at Ukrainians or fires missiles on Ukrainians should understand that they are being watched and will be brought to justice," says Andriy Cherniak, an officer of HUR, Ukraine's military-intelligence agency. In an interview in July his boss, General Kyrylo Budanov, went further: "If you are asking about [creating a version of] Mossad...We don't need to. It already exists."

In independent Ukraine, the use of assassinations dates back to at least 2015, when the country's domestic security service (known as the SBU) created a new body after Russia had seized Crimea and the eastern Donbas region. The elite fifth counter-intelligence directorate started life as a saboteur force in response to the invasion. It later came to focus on what it euphemistically calls "wet work".

Valentin Nalivaychenko, who headed the SBU at the time, says the switch came about when Ukraine's then leaders decided that their existing policy of imprisoning collaborators was not achieving enough. Prisons were overflowing, but few were deterred. "We reluctantly came to the conclusion that we needed to eliminate terrorists," he says. A former officer of the direc- ▸▸

A dish served cold

torate describes it in similar terms. "We needed to bring war to them." In 2015 and 2016 the directorate was linked to the assassinations of key Russian-backed commanders in the Donbas: Alexander Zakharchenko, blown up in a restaurant (pictured on previous page); Mikhail Tolstykh, aka "Givi", killed in a rocket attack; Arsen Pavlov, aka "Motorola", blown up in a lift.

Intelligence insiders say the SBU's fifth directorate is playing a main role in counter-Russia operations. The SBU's relative size and budget—five times bigger than HUR's—mean it has been best able to pull off the most sophisticated jobs, for example bombing the Kerch bridge that links Russia to Crimea, in October 2022. Others, though, emphasise the role of HUR, with its underground networks and increased wartime prominence. "We are mostly the white-collar guys," insists an SBU source.

Another increasingly important force in occupied Ukraine is the Special Operations Forces (SSO). This is a relatively new group that co-ordinates Rukh Oporu (Resistance Movement), Ukraine's partisans. The operation in Kharkiv, for example, was the SSO's. Denys Yaroslavsky, an officer in the SSO, says the service is now pushing for more powers to conduct operations within Russia itself. That suggestion is not universally welcomed elsewhere in Ukraine's intelligence community.

It is understood that Ukraine's president personally authorises the most controversial operations, though other decisions are delegated. The leadership came under scrutiny in October, when the *New York Times* reported that the American government was blaming it for a car-bomb that killed Darya Dugina, daughter of Alexander Dugin, a nationalistic Russian philosopher. That sharpened an already-lively internal debate within Ukrainian intelligence. It was unclear if Ms Dugina was meant to die; some reports suggest she had switched cars with her father.

But a subsequent string of operations targeting mid-level propagandists shows a trend that few of the insiders interviewed for this article are happy with. "These are marginal figures," says one source in SBU counter-intelligence. "It makes me uncomfortable." The former SBU fifth-directorate officer suggests the operations have been designed to impress the president rather than bring victory any closer. "Clowns, prostitutes and jokers are a constant around the Russian government," he says. "Kill one of them, and another will appear in their place."

The former spy says he is concerned that Ukraine's assassination campaign is driven by impulse rather than logic. Some of the killings have a useful psychological role, he says: to raise the cost of war crimes and the spirits of ordinary Ukrainians. This was "certainly" the case with Stanislav Rzhitsky, a former submarine commander believed to have fired the missiles that killed 38 Ukrainians in Vinnytsia in July 2022. He was shot dead a year later while jogging in a park in Krasnodar, in Russia. But other operations suggested an absence of strategy. They risked exposing sources, methods and the extent of Ukrainian infiltration into Russia: "Our security services shouldn't do things just because they can."

Andriy Yusov, a military-intelligence spokesman, insists Ukraine is avoiding what he called "blind terror". The aim is "not to frighten the enemy", he says, but "to force it from occupied Ukrainian lands". But Ukrainian spies would continue to "identify and take advantage of Russian psychology and vulnerabilities" wherever they found them. ■

Corruption in Ukraine

Zelensky's shuffle

KYIV

The president removes his defence minister and goes after an oligarch

IN THE SPACE of two days last weekend, Ukraine saw two big corruption stories make the news. At face value they show the government wresting back the initiative on reform. On September 3rd President Volodymyr Zelensky said he would replace his defence minister, Oleksii Reznikov (pictured), following months of corruption scandals at his department. A day earlier the SBU, Ukraine's domestic security service, had detained Ihor Kolomoisky, a controversial oligarch, on suspicion of fraud and money-laundering. There are questions about the timing and nature of both interventions.

Paying an eggstortionate price

Mr Zelensky focused on his minister's role as a brave and trusted comrade over 550 days of war. But in recognising the need for a change, the president was acknowledging that his record has been tarnished. Mr Reznikov was seen by many, including Western partners, as a charismatic and resourceful negotiator. He was in the inner core that stayed in Kyiv throughout the invasion, despite the huge dangers.

To his detractors, however, he will be remembered for two scandals, involving eggs and winter coats. The journalism of Yuriy Nikolov had exposed both. In February his investigations revealed that Mr Reznikov's ministry had been paying 17 hryvnia (46 cents) for eggs when the market price was just five. Mr Reznikov survived that scandal, only to be hit by another in August, which showed his ministry had bought military coats from Turkey, also apparently at a huge mark-up. Invoices in Turkey showed the coats had a value of $29, rather than the $86 paid by Ukraine.

Government insiders say Mr Reznikov does not appear to have had a direct hand in either of the contracts. He did not appoint the officials who signed the deals. But his poor handling of both scandals, including picking fights with journalists about irrelevant details, made his departure inevitable. "The defence minister had become a focus of jokes," says a source close to Ukrainian law enforcement. "That's not a good look at a time of war."

The presidential office also appears to have had an eye on the polls when taking on Mr Kolomoisky. Once one of Ukraine's most powerful men, the oligarch has been a much diminished figure since the nationalisation of his main banking assets following allegations of serious fraud. Mr Kolomoisky had at one point been close to Mr Zelensky, with the oligarch's 1+1 TV channel promoting first his comedy and then presidential ambitions, but the two have also slowly fallen out.

The role of the SBU, a service controlled by the president, in taking on Mr Kolomoisky has, however, raised eyebrows. The law-enforcement source says the more independent (and Western-backed) National Anti-Corruption Bureau (NABU) had been planning to issue charges against the oligarch later this week. Some interpret the SBU's move as an attempt to steal the headlines from NABU—or even less charitably, as an attempt to disrupt the case and allow Mr Kolomoisky to avoid court.

The eventual resolution of both stories will go some way in determining how willing the West is to continue to underpin funding for Ukraine. But Mr Nikolov says that the renewed focus on corruption is positive: it can only help expose crooks in government. The price of a military egg is a good indicator of the effectiveness of his work. It's back down to seven hryvnia. ■

Greeks in Turkey

Future uncertain

ZEYTINLIKOY

The steady exodus of ethnic Greeks from Turkey looks unstoppable

OUTSIDE A SMALL chapel on Imbros, a windswept Turkish island on the Aegean Sea, the spiritual leader of the world's Orthodox Christians relaxes under a canopy of oak trees, catches up with old friends and reminisces about his birthplace's dark past. Bartholomew I, the Ecumenical Patriarch of Constantinople, born Dimitrios Arhondonis, left the island in the early 1960s to study abroad. By the time he returned a few years later, he could hardly recognise it. The vast majority of the island's 6,000 Greeks were gone, replaced by settlers from Turkey. Convicted prisoners, also shipped in from the mainland, terrorised those Greeks who remained. Some women were raped; several men were killed. The government in Ankara closed the Greek schools, seized nearly all the arable land, and changed the island's old Greek name, to Gokceada.

Over the past few years the island's Greek culture has come back to life. Tourism has taken off. On summer evenings in Zeytinlikoy, the village where Bartholomew grew up, restaurants, many of them Greek, swarm with mostly Turkish diners. After Turkey's government, headed by President Recep Tayyip Erdogan, allowed three Greek schools to open on Imbros a decade ago, descendants of the Greeks displaced in the 1960s began trickling back, their children in tow. The island's Greek population, which had plummeted to under 200, has since tripled. Dimitris and Maria, a lorry driver and a biologist, arrived from Thessaloniki in 2015, enrolled their four children in school, and learned Turkish. They now run a popular café in the island's main town. "In terms of the Greek language and education," says Nikos Lemopoulos, the local headmaster, "we've experienced a small renaissance."

But elsewhere in Turkey the picture is bleak. Some 2,700 years after their ancestors founded Byzantium on the shores of the Bosphorus, Turkey's Greeks are on the verge of extinction. The Ottoman sack of Constantinople in 1453 turned them into strangers in their own lands. A brutal population exchange between Turkey, the Ottoman Empire's successor state, and Greece in the 1920s, saw over a million of them deported. Those allowed to remain suffered whenever Turkey and Greece locked horns. Official discrimination, extortionate taxes, and a pogrom in 1955 drove most of them into exile.

Things began to improve in the 1990s, when Turkey started to shake off decades of de facto army rule. But the exodus has not slowed. Out of a population of some 200,000 Greeks at the dawn of the Turkish Republic, which turns a hundred this October, only some 2,000 remain, most of them in Istanbul. "There's a level where population decline becomes irreversible," says Laki Vingas, a leading member of the community. "We're at this level now."

New incentives, including a path to Turkish citizenship for the descendants of Greeks forced into exile, might have helped. But such measures are not in the pipeline. Even on Imbros, the Greeks face an uncertain future. Nearly all the graduates of the local Greek schools have moved abroad, mostly to Greece, to attend university. Whether and when they will come back is unclear.

Greeks still face prejudice from some quarters. Last month a motley crew of nationalists, including government and opposition supporters, sought to prevent Bartholomew from saying mass at an ancient Greek monastery in northern Turkey. Days before, a Turkish journalist, Melike Capan, had called off an exhibition about the exiles of Imbros after a local official accused her of "offending the Turkish nation".

Yet Turkey's Greeks no longer feel as forsaken as they did when nationalism reared its ugly head in the past. Many Turks, on Imbros and elsewhere, have embraced their Greek neighbours, and understood the need to protect the country's endangered Greek heritage, says Mr Vingas. "We know we are not alone," he says. Days after Ms Capan cancelled her exhibition, more than 100 islanders filed a criminal complaint against the Turkish official who forced her to do so, accusing him of hate speech. Most were Turks. ■

The XXL construction site

STUTTGART

An ever-receding station is Germany's latest transport fiasco

TRAVELLERS ARRIVING at or leaving from Stuttgart's main railway station should be warned. They must allow an extra 10-15 minutes to get out of the building or get to the platforms to catch a train, because of an ugly maze of detours around Germany's biggest construction site. "It has been like this since I was at school 13 years ago," shrugs the barista at a nearby coffee shop.

The ambitious plan for a new station in the capital of Baden-Württemberg, one of Germany's most prosperous states and home to Daimler-Benz, Bosch and Porsche, was to be an advertisement for the state's engineering prowess. By relocating tracks and platforms largely underground, it was supposed to speed up journeys to other places in Germany and all over Europe, while reclaiming space for shops, housing and parkland in the centre of town. The city picked a design by Christoph Ingenhoven, a cool modernist architect from Düsseldorf, and the late Frei Otto, winner of the prestigious Pritzker prize for architecture.

German engineering in action

But its fate has been similar to that of Berlin's new airport, which was completed after a nine-year delay in 2020, having exceeded its budget by more than €4bn ($4.7bn). "Stuttgart 21" (named for the 21st century) was meant to be completed by the end of 2019 at a cost of €4.5bn. It is now forecast to be finished by 2025, and the cost may rise to nearly €12bn. The mega-site currently employs some 6,000 construction workers, who even have their own priest, Peter Maile, to provide (much-needed) pastoral care. The bosses of Deutsche Bahn may need the consolations of religion too. The loss-making German railway operator is in court, fighting the state, city, region and airport over who will cover Stuttgart 21's exorbitant additional costs.

For some, Stuttgart 21 remains an awesome engineering masterpiece in the making; for others it is a bottomless pit wasting more and more taxpayers' cash. In June the station could have celebrated the topping-out ceremony of its main building. Oddly enough, no one felt much like an underground party, or indeed any party at all.

Charlemagne | End of the travelling show

The EU's rotating presidency is a relic of the past. It should be scrapped

THE FLIP side of Europeans taking much of August off is that they are expected to put in a bit of a shift come *la rentrée*. The back-to-school feeling has been palpable in Brussels as thousands of Eurocrats return from the 27 member states to get the EU show back on the road. After much air-kissing and a few long lunches, the prospects for the months ahead are addressed, starting with European elections ahead of next year's summer holidays. Before then, the bloc will have much to keep it busy, such as how to police artificial intelligence, push ahead with plans to admit new members, or increase its budget to keep money flowing to Ukraine. On September 13th a grandiloquent "state of the union" speech by the president of the European Commission, Ursula von der Leyen, will dispel any memories of beaches and sunny getaways from those who still harbour them.

An organisational quirk dating back to the EU's earliest days is meant to help smooth the continent back into action: the rotating presidency. Every six months, a new country is put in charge of running vast swathes of the bloc's business. Spain took over the honours from Sweden on July 1st; until the end of the year its ministers and diplomats will chair most meetings of their peers. Few expect "EU presidencies" (technically the presidency of the Council of the European Union, one of its three main bodies) to achieve much during the summer break. Alas, even now Spain's ability to manage the bloc's business is in doubt. Inconclusive elections in July mean all its ministers are in "acting" mode, and focused on the political imbroglio at home, not to mention their careers. Foreign-ministry types who run much of the presidency business remain in place, but lack political direction as fresh elections loom. Pedro Sánchez, the (acting) prime minister, was meant to lay out Spain's priorities as holder of the EU presidency to the European Parliament in July. That has been pushed back to October.

Presidencies used to be more visible until a new EU treaty in 2009 curtailed their reach. The biggest change was that the summit meetings of European leaders are no longer chaired by national leaders taking turns, but by a permanent "president" (the job title is used liberally in Brussels). Still, holding the mantle gives each country plenty of behind-the-scenes sway. Lots of ministerial meetings are held in presidency countries, giving diplomats home advantage. More broadly, whoever chairs a meeting can often decide what goes on the agenda—and what gets left off. A savvy minister can discern what "consensus" emerged from a flaming row, skewing policies this way or that. A misfiring presidency can thus hold back EU business for months.

Denizens of the Brussels bubble have a sinking feeling that several such misfiring presidencies may now be afoot. After Spain it will be the turn of Belgium, which takes over on January 1st next year. One of the EU's founding members, it has plenty of experience of running the bloc's agenda. But it will hold the role just as its own campaign for national elections culminates on June 9th—the same date as pan-European elections. Like Spain's, its presidency risks descending into showboating by politicians. Its last presidency, in 2010, took place during a 589-day period when the country operated without a government. A repeat could well be in prospect after the polls close.

Worse is to come. In July 2024 Hungary will inherit the mantle. Few national leaders are blessed with two turns at the helm of a presidency, now separated by thirteen-and-a-half years. Unluckily for the EU, that includes Viktor Orban, its current *bête noire*. Expect the Hungarian leader to use his perch to liven up Brussels with barmy speeches in defence of Russia's invasion of Ukraine, along with plenty of culture-war trolling. The nightmare might extend into 2025, when Poland takes over. If the ruling Law and Justice party prevails at the polls next month, it will have its own feuds to feed with Brussels. More EU-bashing awaits.

Such a run should raise the question of whether the rotating presidency is fit for purpose. Its fans think giving each country responsibility for EU business makes them feel a sense of ownership of the bloc's agenda. Training hundreds of officials to master every EU dossier deepens understanding of how the club works in national capitals. Instead of a monolithic Brussels machine setting priorities, countries can bring focus to pet causes. The Spanish presidency has played up Europe's links with Latin America, Estonia can be trusted to bang on about digital services, and so on. A programme of cultural events set by each presidency livens up Brussels—flamenco one month, a *moules-frites* festival the next.

The 13.5-year itch

But the downsides are all too obvious. Some countries are simply too small, or diplomatically under-resourced, to handle the job: who wants a meeting of fisheries bods chaired by a minister of landlocked Luxembourg? Putting new people in charge every six months is a recipe for sapping momentum. The shifting allocation of a bully pulpit makes Europe look not so much diverse as befuddled. Politicians keen to take credit for stuff—yes, they exist—rush through dossiers to show what they have "achieved". Germany in 2020 rammed through a big investment agreement with China, unveiled on December 30th. By spring it had fizzled.

The solution is in plain sight. Finance ministers of euro-zone countries have already opted out of the rotation system, electing one of their own members to chair meetings for two-and-a-half years (with the job title of "president", of course). Other forums of ministers and diplomats should follow suit. This would empty the rotating presidencies of all but their ceremonial elements. The EU is about to embark on a review of how it operates ahead of potentially letting lots of new members join in the coming decade. Some ideas likely to come up, such as dropping national vetoes in more areas, will prove contentious. Ending the travelling circus that is the rotating presidency should not be. ■

Renewable energy

Drifting along

HAPPISBURGH

Once-rapid progress on decarbonisation is at risk of slowing

STAND ON THE cliffs above Happisburgh, a Norfolk village, and imagine the electricity to power a large city flowing beneath your feet. Some 80km offshore stand 130 turbines, each over 300 metres tall, or the height of three Big Ben clock towers stacked atop one another. Cables that emerge from the seabed pass underground between flint-clad villages, carrying energy for 1.5m homes.

That, at least, was the plan. The Norfolk Boreas was intended to be one of the largest offshore wind farms anywhere. Vattenfall, a Swedish developer, won permission for it in 2021. The blades were to start turning by 2027. No more. In July the company halted work because of spiralling costs. Other projects are in doubt. The results of the government's latest renewable-energy auction were also due shortly after *The Economist* was published. In contrast to previous rounds (see chart, next page), few if any offshore wind projects were expected to win contracts.

If so, that would be a clear sign that once-impressive progress towards net zero by 2050 is at risk of faltering. Previous gains came in part because manufacturing has declined and a dependence on coal was kicked early. But as other countries try to speed their own transitions, policymaking progress has slowed. In June the Climate Change Committee, a watchdog, warned that Britain risks missing its next targets.

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One problem is a studied lack of leadership on the environment from Rishi Sunak, the prime minister. In July, after a by-election victory seen as a rejection of London's ultra-low emission zone (ULEZ) for vehicles, Mr Sunak touted policies, such as the need for more oil extraction from the North Sea, viewed as provocative by environmentalists. He hinted to ministers that net-zero policies could be watered down. On August 31st he named Claire Coutinho as his latest energy secretary, the fourth occupant of the post in just a year.

How much does his lack of interest matter? He is buffeted by others. Some in his party hope to paint Labour politicians as eco-zealots. But he must also contend with backbenchers, including his immediate predecessor, Liz Truss, who demand more green activity. That group compelled the government to say, on September 5th, it would ease an effective ban on building onshore wind farms in England. Nonetheless, there is growing concern that green progress will stall.

Start with offshore wind, the core of recent green efforts. Over the past decade, and four rounds of auctions, the cost of electricity produced from such fields has fallen by almost 75%. Only China has more offshore turbines. Last year wind, mostly ▸▸

offshore, produced more than a quarter of all electricity. Boris Johnson, prime minister until 2022, had bold goals to lift capacity to 50 gigawatts by 2030—it is 15 today.

That was always going to be difficult, requiring three or four new Norfolk Boreases a year. With other wealthy countries also keen on the technology, competition for skills and parts is fierce. Inflation has also hurt. Vattenfall, Orsted, a big Danish wind-farm developer, and others say building costs are up by 40% from last year. Pricey steel is a problem. Overstretched suppliers, including those of boats needed during construction, are another.

Most analysts think building costs will remain high globally. Despite this, Britain's government refused to increase the maximum strike price—the highest bid allowed to developers in a reverse auction, in which rivals compete to offer the lowest price—from last year. It may have worried about giving any hint of consumer bills rising to support green projects. If so, that was wrongheaded, says Jess Ralston of the Energy and Climate Intelligence Unit, a think-tank. With gas prices expected to remain high and no obvious alternatives, offshore wind projects still offer savings for consumers. Ministers were also probably influenced by developers crying wolf before, saying a price could not be met only to bid below it.

If few, or even no, new offshore wind projects are agreed on after the renewable energy auction, that would create uncertainty for suppliers to the industry. Developers may drift away to other markets: Germany completed its largest auction round so far in July. And even if one or two projects win support, if prices are too low for the developers to deliver them, they may decide to delay.

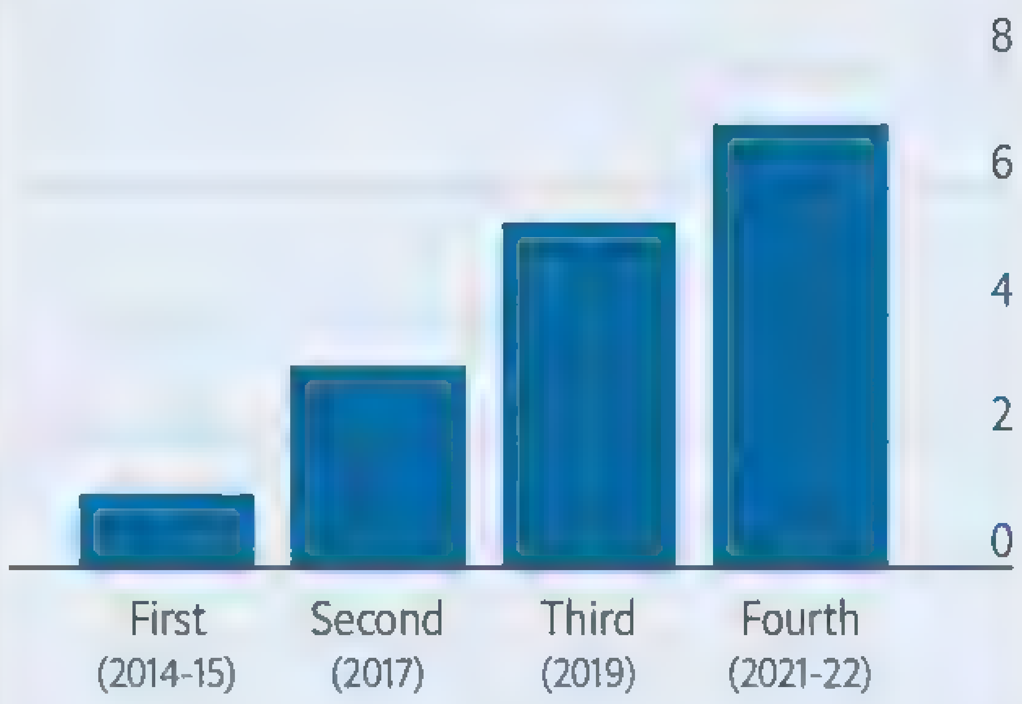
The outlook for onshore wind farms may seem brighter. But these are much smaller than those at sea and anyway tight planning restrictions will remain, even if these are less arduous than previously, when a single objection from a local resident would scupper a project. In England just two onshore turbines have gone up in the past three years, on land owned by Keele University. Scotland has been more hospitable, but still cannot match the scale that can be achieved at sea. Across all technologies, builders say a lack of investment in the grid is a big barrier to getting more renewable power installed.

Mr Johnson had talked of easing planning rules, or finding ways to reward areas hosting wind farms, but no specific proposals have yet emerged. In Norfolk, councillors grumble that locals see no gain from disruptions in the county. Other countries do a better job of dangling carrots, for example with developers paying communities a share of their annual profits.

Two other indicators illustrate Britain's

Harness the wind

Britain, offshore wind auctions, GW allocated



Source: Department for Business, Energy & Industrial Strategy

*Fifth expected to be announced on Sep 7th 2023

drift. The first concerns heat pumps to replace household gas boilers. Last year 69,000 of these were installed, whereas Germany managed to put in 236,000. A target to get 600,000 into British homes each year by 2028 is all but certain to be missed. Regulations and taxes that apply to electricity, but not to gas, discourage switching. A lack of skilled engineers to install the pumps is another constraint.

The second is the administration of Britain's emissions-trading scheme, introduced after Brexit to replace the one used in the European Union. Having closely tracked the European carbon price previously, the British price has been drifting steadily lower this year. A partial reason for that is that the government, since July, said it would issue more allowances for polluters. That gives investors in Britain less incentive than those in Europe to seek out green projects.

The pace has not slowed in every sector. Even if the push to decarbonise the grid is slowing, the switch to electric cars continues: one-fifth of cars bought by Britons in August were electric. It helps that electric-car prices have been falling globally, but also that Britain is sticking to its promise to end the sale of new petrol and diesel cars by 2030 and has introduced a goal for manufacturers to make more vehicles electric. Some Conservatives have called for both of those to be ditched. Instead Mr Sunak listened to the car industry—notably the Tata Group, which in July announced plans to build a battery factory in Somerset, helped by a large subsidy.

More tensions will come to the fore this month, as an energy bill reaches its final stages in Parliament. Ms Coutinho faces pressure on matters such as the ending of installation of oil boilers in households (Duncan Baker, Conservative MP for North Norfolk, calls it "the rural ULEZ"). If Labour were to form the next government, it says it wants all of Britain's electricity to be zero-carbon by 2030—five years before the Tories' target. Another year of drift would leave it with a lot to do. ■

Water pollution and housing

Bricks and water

Some environmental rules will be eased for housebuilders

FOUR YEARS ago Natural England, a body that gives advice on nature conservation, warned local authorities in the catchment of the Solent river basin in southern England about pollution. Excessive nutrients in rivers were causing "dense mats of green algae" that damage protected areas and birds. To prevent further harm, it said, any new housing development had to achieve "nutrient neutrality". By March 2022 that legally binding stipulation had been extended to 27 protected river catchments covering 74 local authorities and 14% of the land area in England.

Making housing nutrient-neutral, however, is difficult. Water companies need the wastewater-treatment capacity to ensure that, as housing goes up, no extra run-off goes into rivers. In fact, they don't have it. The government is forcing water companies in affected areas to improve water-treatment standards, but not until 2030.

Until then, housebuilders had been expected to offset the nutrient pollution. But such mitigation looks costly. Calculations by Lichfields, a planning consultancy, set out various scenarios. For a 20-hectare development of 500 homes in Kent, for example, it suggested 560 hectares of farmland would have to be made fallow or 43 hectares of wetlands created. It suggested doing that would cost as much as £114,000 ($143,000) per dwelling built. As a result, house-building in the 74 authorities has

Britain in (algal) bloom

stalled. The government says the nutrient-neutrality rule threatened to halt the building of 100,000 homes this decade.

On August 29th Michael Gove, the secretary of state responsible for housing and planning, said rules for housebuilders would be reformed, to their delight. An EU-era law protecting habitats will remain, but its interpretation for local authorities scrutinising planning applications will be weakened with an amendment to a bill now making its way through Parliament.

Conservationists are worried. A new Office for Environmental Protection says there is a risk of "substantial harm to protected wildlife sites". England's rivers are in a dire state. In 2019 just 16% of water bodies were assessed as having "good" ecological status, but farms and existing homes are mostly to blame for that. The Environment Act passed in 2021 means the government is legally obliged to stop species decline by 2030—and increase it by 10% by 2042. The Royal Society for the Protection of Birds, a once-staid organisation that is increasingly activist, tweeted that official assurances about environmental protection were a "lie".

Assuming the amendment passes, builders will cheer Mr Gove, who is under pressure to show that house-building can pick up from its current low level. Other environmental constraints may come under scrutiny. From November, the Environment Act will compel housebuilders to show that their sites increase biodiversity by 10% upon completion. In water-stressed parts of Sussex, Natural England has said new housing must show "water neutrality". And in the Chilterns, developers must see to it that some vulnerable beech trees don't get too many visitors. ■

The economy

Revision pays off

Growth figures used to look abysmal. Now they're only poor

IT'S RARE THAT tweaks to already published figures make big news. But then it's also rare for statisticians at the Office for National Statistics (ONS), a body that produces official data, to make dramatic adjustments. In an update on September 1st they found, in effect, almost two percentage points' worth of GDP hidden behind a sofa.

Doing so, the ONS rewrote recent economic history. Previously its data had shown the economy, at the end of 2021, to be still 1.2% below its pre-pandemic size. Now it reports that national output at the time was in fact 0.6% higher. As the government has been quick to point out, the revisions require a rethink of Britain's performance. For much of the past two years Britain had seemed to be a laggard, with the weakest growth of any G7 rich economy. Now the record looks more respectable. Britain has been outgrowing Germany and just about matched the pace of France (see chart).

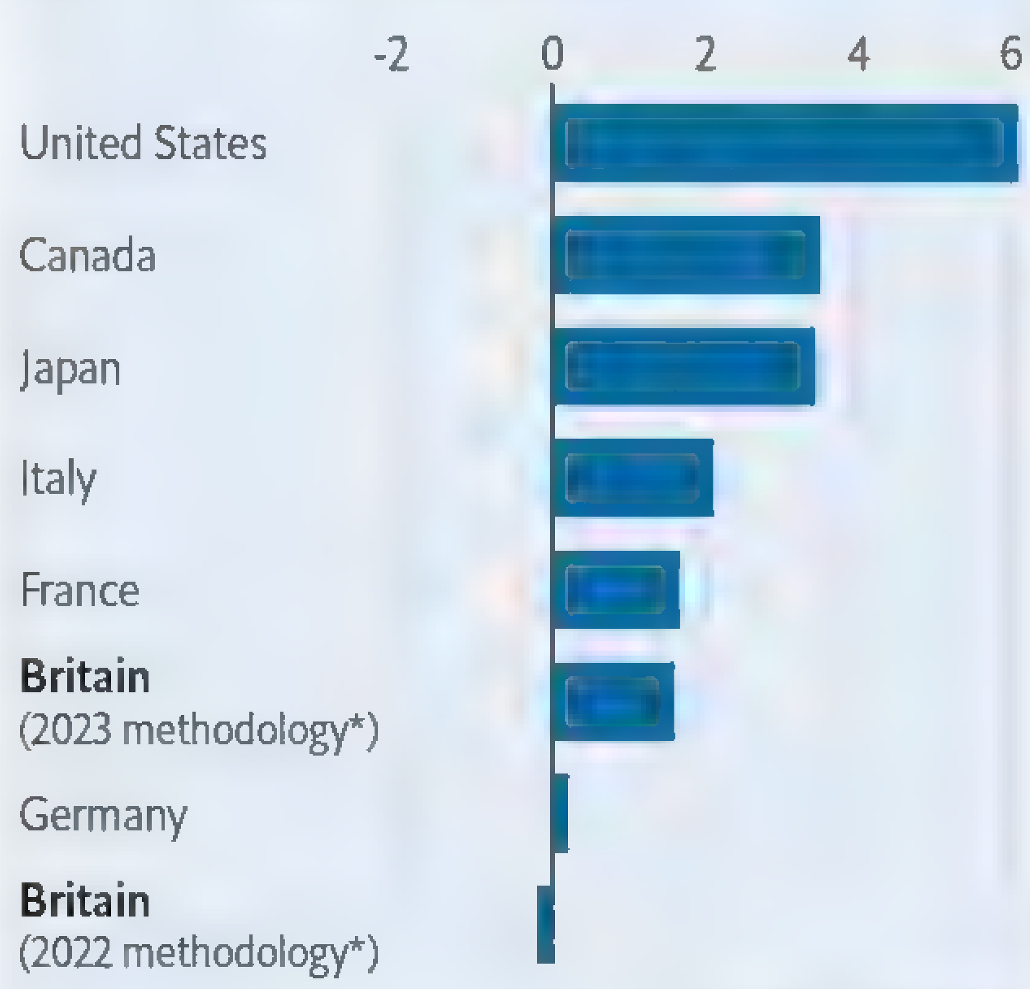
GDP numbers are always subject to revision as more information emerges. They should, in theory, grow more accurate as time passes. The latest update marks a large absolute adjustment, but is not unusual in proportion to the underlying changes in GDP to which it relates. The magnitude of the swings in national output in 2020 and 2021 was without precedent. For that reason, proportionally normal revisions mean big changes in the headline figures. Even without the wild gyrations in GDP, the pandemic was a tricky time for compiling data. For example, with many workers trapped at home, firms did not make it a priority to fill in forms for official statisticians.

One big adjustment concerns stockpiling. The ONS now reckons that in 2020 companies were adding to their piles of unsold stocks, not running them down. That inventory build-up meant that the reported fall in GDP was less severe than first thought: 10.4% rather than 11%.

More significantly, growth in 2021 has been notched up from 7.6% to 8.7%. Whereas the initial estimates for this year were mostly based on companies' reported turnover figures, the ONS now has access to more detailed surveys. These let it examine inputs and outputs of different sectors with a finer degree of granularity. That, coupled with an updated methodology to match the latest international statistical standards, has led it to believe that margins in 2021 were healthier than once thought. Thus profits, income and GDP were also higher than first understood.

No longer last, just

GDP, % change Q4 2019-Q2 2023



Sources: ONS; OECD

*Based on UK National Accounts, The Blue Book

The change in the level of GDP was large, but mostly concentrated in two quarters: the second quarter of 2020, near the beginning of the pandemic, and the second quarter of 2021, during the reopening after the roll-out of vaccines. The broad trajectory of the recovery remains unchanged, although the initial fall in output was a bit less steep than once feared and the first recovery turned out somewhat faster.

The underlying shifts in the sectoral composition of growth also matter. In wholesale trade, the change in gross value added (a measure of the value of goods and services produced by a sector) in 2021 was revised up from just 2.7% to 32.4%. The growth in output of health services was lifted from 34.6% to 57.1%. That reflects better accounting of the economic impact of the vaccine roll-out, the test-and-trace programme and more robust recovery in normal health services than once thought. The broad picture is that the service sector did better than previously believed, though the manufacturing, construction and agricultural sectors performed worse.

The revisions help to explain away some mysterious quirks of Britain's recent economic performance. The Office for Budget Responsibility (OBR), the government's fiscal watchdog, had been struggling to reconcile surprisingly resilient tax receipts with tepid economic growth. The revision has resolved that puzzle. However, it is not likely to lead to large shifts in the OBR's forecasts for the fiscal picture: no one should expect a cut in taxes or a boost to spending as a result. The once equally perplexing strength of hiring now also makes more sense.

The ONS is keen to point out that it is one of the first national statistics bodies to update its estimates for 2020 and 2021 in light of better data on sectoral inputs and outputs. Other countries will follow suit, and their own GDP rates may also be revised (if so, probably upwards too). Britain's better performance relative to her peers, therefore, might not last long. Before the ONS rewrote the story of 2020 and 2021, the economy's performance looked abysmal. After the revisions it looks merely poor. Any improvement is welcome, but the economic narrative has not fundamentally changed. ■

The new zing in zoning

Giving the thumbs-up

SAN FRANCISCO

YIMBYS are taking on housing shortages across the English-speaking world

FLANNERY ASSOCIATES did not even have a website until the end of August. But a lawsuit involving the firm, first filed in a federal court in May, has uncovered the huge extent of its land holdings in Solano County, which lies around 60 miles (97km) north-east of San Francisco in California. The suit revealed that Flannery had committed to buying 140 properties for a total of more than $800m and was paying well over the market odds: as much as $15,000 per acre, for land valued to tax authorities for as little as a tenth of that. The entire scheme spans 50,000 acres, an area far larger than that of San Francisco proper.

Who would be willing to pay so much for seemingly so little? On August 25th the *New York Times* revealed that the formerly anonymous owners of Flannery Associates include almost a dozen Silicon Valley titans. Among them are Michael Moritz, former head of Sequoia Capital, a huge venture-capital firm, and Reid Hoffman, the founder of LinkedIn, a networking app. Though none of the land is currently zoned for housing, the plan, apparently, is to build a town from scratch. Its new website is branded "California Forever", with architectural drawings of families eating in sunny Mediterranean-style plazas. This constitutes "a vision", says Brian Brokaw of Flannery Associates.

Nowhere in the world is the failure to build enough housing clearer than in the San Francisco Bay Area. The overriding reason why boils down to Nimbyism, or "Not in My Backyard", the tendency of locals to resist new development. A growing movement is trying to fix that. The secretive plans for a new city in Solano County are just one of the more outlandish strands of Yimbyism—a growing movement that says yes, not no, to development.

YIMBYS argue that housing shortages are caused largely by laws that control who can build what and where. Zoning and planning laws, they say, are so strict that building new housing is in many places completely illegal, and in almost all it is slow, difficult and expensive. In the past decade or so, Yimbyism has spread from a minority pursuit of economists and a few dedicated activists into a plausible political movement of its own, with thousands of members and chapters spreading across countries including America, Australia, Britain and New Zealand.

Not everyone agrees on everything. YIMBYS range from libertarian-leaning tech types through to self-described socialists, such as John Bauters. He is the bicycle-riding mayor of the tiny Californian city of Emeryville, who allows development because it gives him more rich people to tax. Yet all share one belief: more housing needs to be built, especially in the biggest and costliest cities.

House of straw

In recent decades house prices have outstripped income growth across the developed world. The reasons for this are numerous. Interest rates affect how much buyers can afford, as does income growth. Population changes, culture and demography all have an impact on demand, as do bank regulation, lending practices and the like. But underlying it all is basic economic logic: where demand outpaces the supply of new homes, prices tend to rise.

According to data collated by Jim Gleeson, a researcher at the Greater London Authority, since the millennium the number of homes in English-speaking countries is lower relative to populations than else-

where in the rich world, and growing more slowly, too. Between 2000 and 2020, the number of homes for every 100 people rose in Britain from 43 to 44. In America it went from 41 to 42, and in Australia from 40 to 41. In New Zealand population growth outpaced construction, and the number of homes per 100 residents fell slightly, to 38. In France by contrast, the figure was already 50 in 2000, and had risen to 55 by 2020; in Germany it went from 47 to 52, and in Japan from 42 to 49 (see chart 1).

What explains this? In most markets, higher prices stimulate supply. When demand for cars increases, carmakers open more factories. But all rich countries regulate construction, for good reason. Whereas a car can be manufactured and then transported almost anywhere, land is an inherently scarce resource, and for the most part housing is only valuable when it is near jobs, public services and infrastructure. Few people want to live right next door to a sewage plant; lots want to live near a large park. Planning is meant to take such things into account.

House of sticks

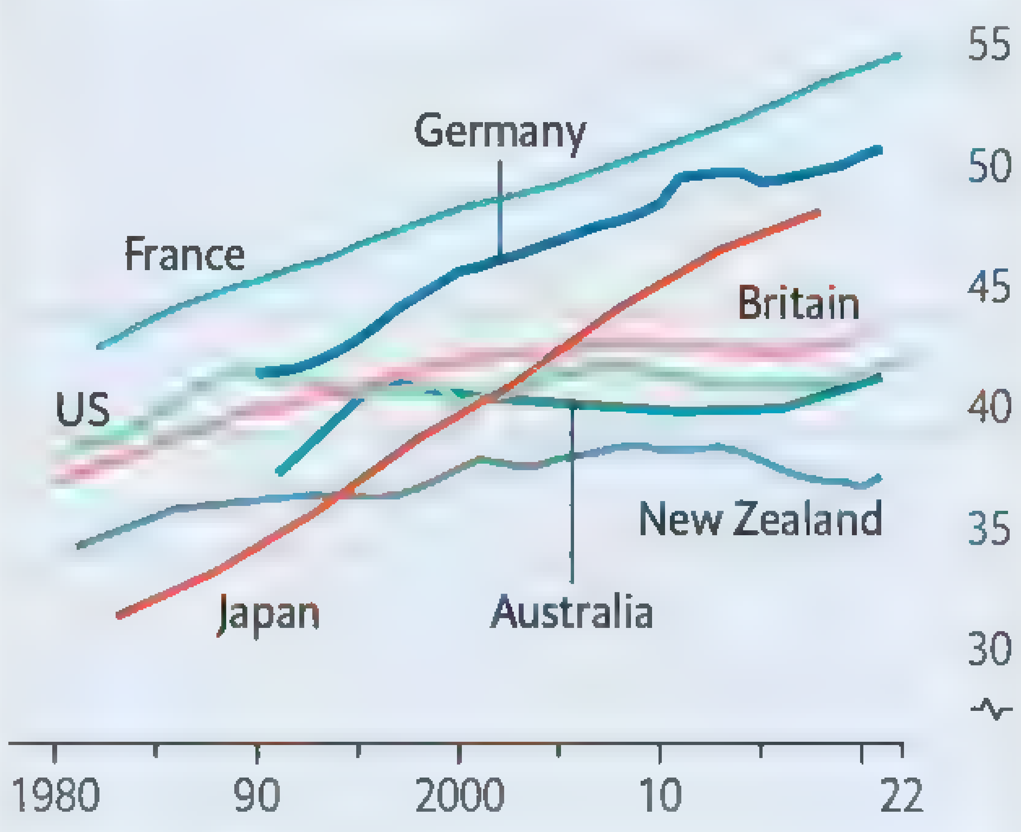
Because jobs move, a stable ratio of housing to people across a country can mask a growing shortage in the hottest local economies. In places like California and London, wages are far higher than elsewhere in America and Britain, and have risen faster in the past decade. But for workers who do not own property, the gains are eaten up by higher rents (see chart 2). Findings published in January by the National Bureau of Economic Research show that for workers with degrees, although living in a big coastal American city comes with a substantial wage premium, a higher cost of living means that overall they are about as well off as if they lived in a poorer city. Lower-skilled workers are much worse off, which means they move out to make space.

California's YIMBYS point to a broken system. The state's population is shrinking even as California generates huge numbers of well-paying jobs. Consider that the median monthly rent of a one-bedroom apartment in the city of San Francisco is $3,007, or 63%, of what the median American adult working full time makes before taxes. And yet, so far this year, the Bay Area has issued permits to build only 4,500 new units of housing—scarcely more, relative to its population, than Detroit, the former powerhouse of the Midwest. The Austin area in Texas, with roughly half of the Bay Area's population, has issued some 20,000.

California has tried to control development since at least the 1970s. Scott Wiener, a state senator who represents San Francisco, says that with housing in the state "the rules get made up as you go along". The process "takes years and years and is so chaotic it ultimately mutilates or kills the project entirely". Mr Wiener was among the first YIMBY politicians and crafted a new state law, SB35, which passed not long after he took office in 2017.

Maisons for all

Residential dwellings per 100 people



Source: Jim Gleeson, PublicHouse

SB35 encourages more development by forcing reluctant city governments to comply with state-led targets. These have existed for decades in order to facilitate new housing. For San Francisco (the city, not the entire metro area), the legal target is 82,000 homes by 2031. The number of homes that have actually been built to date means that the target looks wildly out of reach. Other laws passed by Mr Wiener and his allies have extended rights to homeowners to build "accessory dwelling units", or granny flats, and have restricted mandates that force developers to provide masses of free parking in new buildings.

At the higher levels of politics at least, Yimbyism is now practically mainstream in California. "Pro-housing policies are pro-job policies," tweeted London Breed, San Francisco's mayor, in July. Gavin Newsom, the state's governor, promised to build 3.5m homes in a speech for his election campaign. Across the state such politicians are engaged in an increasingly pitched legislative battle with local politicians, such as city council members and the leaders of suburbs, who are generally determined not to build more.

Squeezed Kiwis

Share of renters spending more than 40% of disposable income on rent*, %

Selected countries, 2020†

Source: OECD *Private †Or latest year available

Yimbyism abounds elsewhere, too. In New York this year Kathy Hochul, the state governor, (unsuccessfully) proposed a radical "upzoning", approving a greater density of housing in a particular area. She argued that it would allow the construction of 800,000 more homes over a decade, primarily by letting more apartments be built around railway stations in New York City's suburbs. In Canada Pierre Poilievre, who leads the opposition Conservative Party, wants the federal government to be able to force municipalities to allow more housing construction. Both major political parties in Britain say they want more houses built, no doubt mindful of an election expected next year.

Yet constructing housing remains extremely tricky. The problem, says Brian Hanlon, a co-founder of California YIMBY, a pro-housing pressure group, is that "we are all inheritors of this English town-planning system, which is disastrous". In Britain the first extensive regulation of landowners' rights to build on their property was introduced with the Town Planning Act in 1909 and then expanded dramatically in 1947 with the Town and Country Planning Act. In America "zoning" laws were passed in most urban areas in the 1920s and 1930s. "When Ireland got independence, we practically copied everything Great Britain did," says Robert Tolan, a housing economist in Dublin. That included Ireland's own version of the planning act in 1963. New Zealand got its Town and Country Planning Act, named after the British one, in 1953.

In many English-speaking countries, inspired by Victorian worries about "slums", planning laws tended to prioritise detached houses. For urban planners, such as Ebenezer Howard, density was seen as akin to crowding. In packed industrial hotspots, "downzoning" and slum clearance were used to flatten cities and spread them out by force. The writer George Orwell was sceptical of the proceedings: "If people are going to live in large towns at all they must learn to live on top of one another," he declared. But he reckoned that many workers in Britain did not "take kindly to flats".

Today far fewer citizens of English-speaking countries live in flats than elsewhere. In England 80% of people now dwell in houses, and just 6% in flats in buildings taller than three storeys. In France 44% of people live in apartments, as opposed to houses. In cities including Dublin, Los Angeles and Sydney, sprawl is running out of road. At the densities allowed by law, almost all of the land within a reasonable commute of city centres has already been "built out". Instead, new sub-

divisions are built in separate towns, perhaps 50 or 60 miles away from the core, with residents typically facing punishing commutes by car to work. (In Britain these workers typically leap over the "green belts" around cities within which construction is mostly illegal.)

In San Francisco construction cost on average around $440 per square foot last summer (a figure far higher than elsewhere in America). But homes sold for roughly twice that. In southern England an acre of agricultural land might cost as much as £15,000 ($19,000). An acre with planning permission is worth at least 60 times that. What this means is that giving permission to developers to build creates vast amounts of value by the stroke of a pen. And yet it doesn't happen, largely because, through the planning system, local residents and political groups are generally able to block any development. Rules intended to regulate development, such as environmental reviews, design consultations, parking requirements and so on, in fact serve the purpose of stopping it.

House of bricks

Nimbyism has plenty of origins. Most obviously, homeowners want to protect the value of their properties. Allowing the construction of individual detached houses only on large lots—a type of zoning—is an effective way to stop poor people from moving into wealthy neighbourhoods. In America there were racist motives behind the adoption of zoning and behind its tightening in the 1960s and 1970s.

Nowadays, people are more likely to fear that new housing will worsen traffic, or that their views will be spoiled, or that new neighbours will be annoying, or that public services will not expand to meet extra demand. This all creates strong incentives for existing residents to organise against new development. By contrast, the people who would live in homes that are not yet built do not get a say.

Even most YIMBYs do not argue that developers ought to have an untrammelled right to build anything, anywhere. In the decades after the second world war entire neighbourhoods were demolished by overzealous planners in a host of countries. But the pendulum has since swung too far the other way. In 2021 in Bethnal Green in east London, 291 homes were blocked by the High Court in part to save a mulberry tree. In Washington, DC, earlier this year a surface car park built in the 1960s was ruled to be an integral part of a historic bank, making any plans to build on it subject to tough additional scrutiny. In Dublin, Ireland, in January a development of nearly 1,600 homes was blocked by the High Court for a variety of reasons. But it was noted that the move protected a pair of "striking brick arches" from demolition.

David Broockman, a San Francisco YIMBY who happens to be a political scientist at Berkeley, suggests that Nimbyism often wins despite the huge benefits of building. That is because a project's interested parties squabble over how to share the value created by allowing it. Some want it to be used to subsidise affordable housing; some want environmental protections; some want prettier buildings; some want tax. "Every group is asking for too much," says Mr Broockman. The end result is that nothing gets done and everybody is worse off, he concludes.

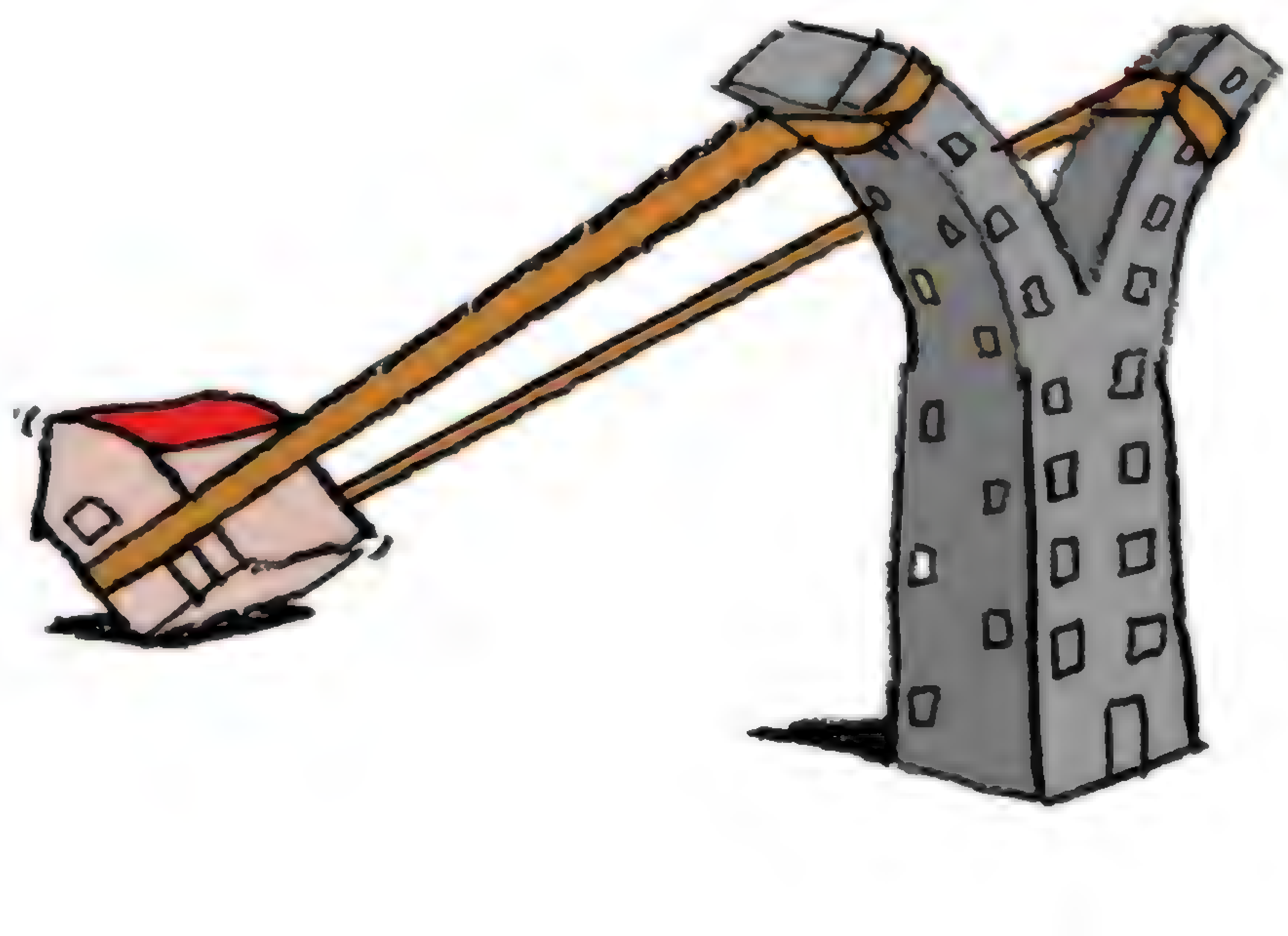
Is Yimbyism able to help? Housing construction has risen in California in recent years: more homes were built in the state last year than in any since 2008. Some of this is thanks to modest YIMBY reforms. In the Los Angeles area, there has been a boom in the construction of accessory dwelling units. Typically, these are built in the garden of an existing house. Statewide, around 60,000 have been permitted since 2017 and in 2022 they made up one in seven of all homes constructed; most of them have been put up in the Los Angeles area.

Overall construction is still far too low to make California truly affordable again, however. The big question is whether recent reforms can induce more. In May, Emeryville, home of the socialist bicycle-riding mayor, was designated by the state of California as one of just 22 cities out of 482 to be officially "pro-housing", meaning it plans to substantially exceed its mandated targets for construction. The city, which is wedged in between Berkeley and Oakland, about half an hour from downtown San Francisco, proposes to allow the construction of 3,687 new homes over the next eight years. That is roughly one new unit for every two existing units. But many other places are fighting their legal requirements to plan for more housing.

What is clear is that allowing construction does reduce rents. Activists point to one place where it has already had a measurable and large effect. In 2016 New Zealand's parliament passed a sweeping upzoning of the city of Auckland. The result, says Ryan Greenaway-McGrevy, an economist at the University of Auckland who has analysed the data, was a big increase in building. The number of new homes that got permission to be built went up from 2,500 to 15,000 between 2010 and 2021. Of course, like many other countries, New Zealand was dealing with the effects of the global financial crisis back in 2010. But all over the city, smart blocks of flats that can fit many inhabitants have quickly replaced fading 1960s detached houses. Homeowners have seen the value of their land go up, as it can now be redeveloped. But the cost of renting a single home has fallen, unlike in the rest of New Zealand.

It will take a lot to undo decades of undersupply. In Britain a study published this year by the Centre for Cities, a think-tank, estimates that the country is short of 4.3m homes relative to the number built in other European countries. A study in 2015 of America put the annual cost of restricted development in America's biggest cities at more than 9% of GDP.

But as the costs rise, so too do the potential benefits of building. Whether Silicon Valley's richest tech investors can take advantage of that remains to be seen. Already the existing residents of Solano County are preparing to push back against "California Forever". More politicians should look at Mr Bauters in Emeryville and follow his example. For his part, Mr Bauters just wishes that everyone would spend much less time talking and far more time building. ■



Artificial intelligence

Meet Ernie

SHANGHAI

China's answer to ChatGPT is catapulting its maker back to stardom

ERNIE BOT has some controversial views on science. China's leading artificial-intelligence (AI) chatbot, which was released to the public on August 31st, reckons that covid-19 originated among American vape users in July 2019; later that year the virus was spread to the Chinese city of Wuhan, via American lobsters. On matters of politics, by contrast, the chatbot is rather quiet. Ernie is confused by questions such as "Who is China's president?" and will tell you the name of Xi Jinping's mother, but not those of his siblings. It draws a blank if asked about the drawbacks of socialism. It often attempts to redirect sensitive conversations by saying: "Let's talk about something else."

Ernie's reticence will come as no shock to Chinese users familiar with a heavily censored internet. They may be more surprised by the chatbot's origins. For Ernie is the brainchild of Baidu, a Chinese tech giant that has for years been outshone by rivals. Now, thanks to AI, the company is staging a comeback. The extent to which it succeeds will say much about the prospects for the Chinese technology industry, which is squeezed on one side by America's export controls and on the other by Mr Xi's increasing authoritarianism.

A decade ago Baidu, as the operator of China's largest search engine, was at the centre of the country's internet. Together with Alibaba and Tencent, China's two most valuable internet businesses, it formed a triumvirate known as "BAT". With foreign search engines banned or heavily censored in China, it faced little competition in its core business.

Baidu never lost its dominance of Chinese search; it still enjoys more than 90% of search traffic in the country. Yet shifts in the technology landscape have left the company a shadow of its former self. Most Chinese internet users now trawl the web with the help of super-apps such as Tencent's WeChat. Advertising dollars have shifted to apps like Douyin, the Chinese cousin of TikTok. Meituan, a delivery platform, and Pinduoduo, an e-commerce firm, have surged past Baidu's market value of $50bn. In an effort at emulation, it launched its own delivery and shopping offerings, along with other services such as payments and social media. These mostly flopped. The company's market capitalisation is now equivalent to one-eighth of Tencent's, down from one-fifth five years ago (see chart on next page).

Baidu's rollout of AI, however, is reigniting excitement about the company. Ernie was downloaded 1m times within 19 hours of its release (ChatGPT reached 1m downloads after five days, according to its American maker, OpenAI). Baidu's share price rallied by more than 4% on the day of release, as analysts, investors and common folk bombarded the bot with questions. Although four other firms, including SenseTime, a facial-recognition business, launched similar services on the same day, and six others have been granted approval by China's government, Ernie is generating the most buzz.

Last month Robin Li, Baidu's chief executive and co-founder, said that the roll-out of AI had been a "paradigm shift" for the company. That shift did not, however, happen overnight. Years of investment have ▸▸

→ Also in this section

turned Baidu into one of China's most sophisticated AI companies, with a system that encompasses chip design, a deep-learning framework, and proprietary AI models and applications. The company started building Ernie in 2019, making it one of the earliest firms anywhere to experiment with such "generative" AI.

So far Baidu has shied away from giving explicit guidance on what the technology will mean for its bottom line, but analysts believe Ernie will drive more traffic to its search engine and other services, raising advertising revenues. Baidu has also cemented itself as China's largest AI cloud provider, and has started offering bespoke services for companies that want AI models tailored to their specific needs.

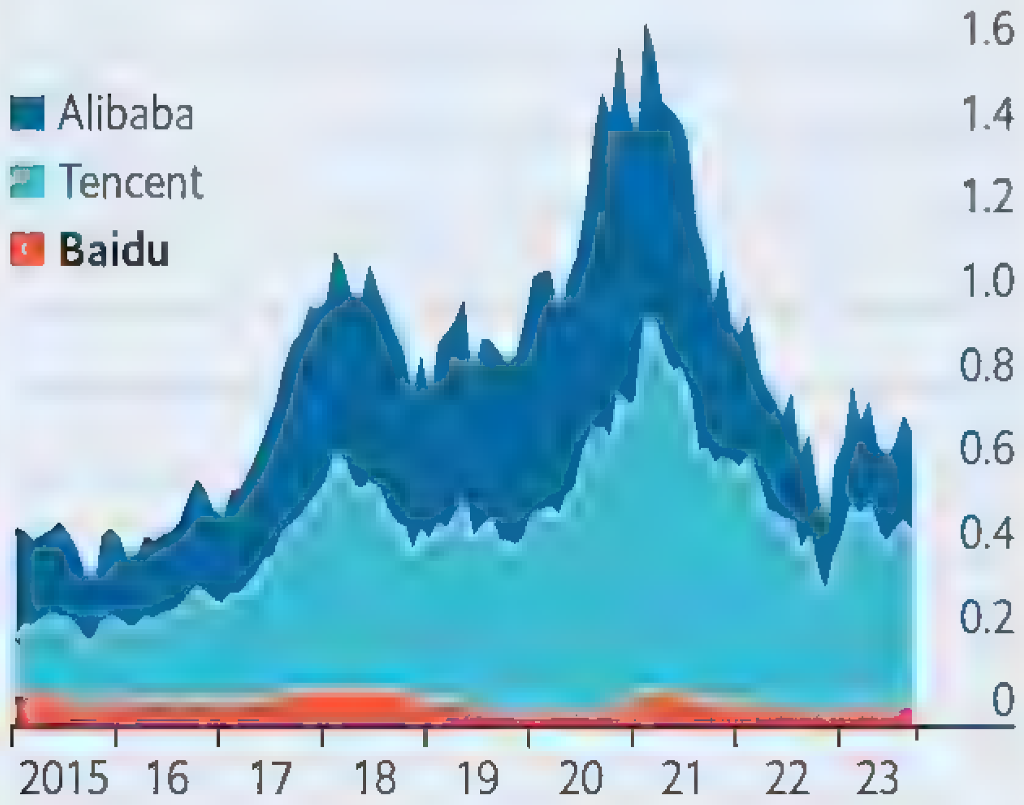
Enthusiasm for Baidu's other important foray into AI, an autonomous-taxi business, is more muted. The service has been launched in a few cities across China, allowing users to hail robotaxis via a mobile app. But trips must still be monitored remotely, and a wider roll-out could be years away. Few analysts expect the unit to generate meaningful profits soon.

Much of what comes next for Baidu will depend on policymaking in Beijing and Washington. Restrictions on the sale of advanced semiconductors to China imposed by President Joe Biden's administration are causing the company a world of pain. Almost all of those chips, which most AI builders use to train their models, are produced outside China. Using a larger quantity of lower-powered processors is possible, but expensive.

In Baidu's case, its AI efforts rely on the Kunlunxin chip. Although it designed the chip itself, production is outsourced to companies like TSMC, a Taiwanese contract manufacturer. America's restrictions put limits on the types of chip that foreign foundries can sell to Chinese firms, and no domestic supplier has been able to produce such advanced components. Since America's restrictions were announced, Baidu has been downplaying the importance of the Kunlunxins, which may hint that it is having problems procuring them.

BAT needs wings

Market capitalisation, $trn



Source: Refinitiv Datastream

China is trying to catch up in the manufacture of advanced chips. On August 29th Huawei, a maker of telecoms-gear clobbered by American sanctions, began selling a 5G smartphone that, after being dismantled by analysts, appeared to contain unexpectedly advanced Chinese-made silicon (albeit not quite cutting-edge).

Xi's laws of robotics

That still leaves obstacles closer to home. China's government has taken a keen interest in the regulation of AI, moving faster than most other countries. This has yet to cause too much consternation among the country's tech executives. Regulators recognise the commercial value of AI and want companies to make money from it, says one executive. They also grasp the importance of allowing Chinese companies to compete at the global level, the person says. The approval of the first batch of bots was quicker than some had feared. Long delays to product launches, such as those for new video games, often hurt the share prices of their Chinese makers.

Yet many AI enthusiasts still find some rules onerous, especially for a nascent industry. Companies offering generative-AI services are required to identify and report "illegal content". They must also adhere to China's "core socialist values", a sweeping and ambiguous command. After netizens spotted that a prompt for a "patriotic cat" in Ernie's drawing application produced a picture of a feline with an American flag, the words "patriotism" and "patriotic cat" were blocked in the tool. Users may be put off by what Chinese AI cannot say, or fearful of being reported for asking the wrong questions. The costs of censorship and compliance will start to add up for Baidu and other companies, warns Kai Wang of Morningstar, a research firm.

Recent experience has made it clear to China's tech executives that they operate at the pleasure of the government, and that its favour can be quickly withdrawn. Internet companies were hit with several regulatory crackdowns between 2020 and 2022. Another such assault on AI could do great damage to the firms that have invested in the technology, Baidu foremost among them. The company is testing the waters in a difficult environment. For that reason it is important to watch what Ernie says—and all that it doesn't. ■

Construction

Shovel-unready

BERLIN

German builders are on the brink of collapse

"WE ARE SENDING our construction industry into the abyss," warns Rolf Buch, boss of Vonovia, Germany's biggest landlord. The crisis afflicting German builders is far from the country's only economic problem. But it is particularly acute, and concerns a sector that makes up 12% of GDP and employs 1m construction workers. That makes it important for the health of the German economy and of its society.

The government promised to build 400,000 flats a year when it came to power in 2021. Industry groups reckon that something more like 700,000 a year are needed, not least to house the more than 1m Ukrainians who have fled their war-torn country. Whatever the true figure, everyone agrees that the 295,000 built last year did not cut it. Mr Buch calls the resulting shortage of affordable flats in parts of the country a "societal tinderbox".

This year the number is likely to be lower still. The prices of materials and energy have shot up as a result of supply-chain disruptions, some of them war-related. Higher interest rates, meanwhile, have increased the cost of debt that many German builders rely on to get projects off the ground. As a result, construction firms and property developers are going bust in droves. In the first four months of this year 437 building companies filed for insolvency, an increase of 20% compared with the same period in 2022. Last month Gerch and Development Partner, two developers from Düsseldorf, Project Immobilien from Nürnberg and Euroboden from Munich went belly up.

"It is not a functioning market," says Clemens Fuest, head of Ifo, a think-tank. The reason, he says, is red tape. In 2015 Germany introduced a "rent brake" in popular parts of big cities to limit the price of fresh leases to no more than 10% above a level determined by an index of rents in a particular location. Although new builds are in theory excluded, the policy still deters housing development in places where it is most needed. Moreover, says Mr Fuest, tenants are well protected by law, which is a further burden for the industry.

Other rules are making construction ever more expensive. Already strict environmental regulations are set to become

A pile of woe

stricter. If a new standard for insulation called EH-40 is introduced as planned on January 1st 2025, it will add 20% to construction costs that have increased by two-thirds in the past few years as it is, estimates Dirk Salewski, president of the BFW, a federal association of independent real-estate and housing companies. "We have the best fire-protection and soundproofing regulation in the world," he adds. He does not exactly mean that as a compliment: all this world-beating regulation is choking the industry, he laments.

Tim-Oliver Müller, head of Bauindustrie, the federation of the German construction sector, points to other bureaucratic headaches. An application for a building permit requires filing eight paper copies with the authorities. Each of the federal republic's 16 states has different building rules. Cities, and even some of the country's nearly 11,000 communes, weigh in with their own strictures. Whenever a fault, no matter how minor, is found with an application, the clock for its processing is reset. Mr Müller suggests that all applications should be digital and that if the authorities don't respond to an application within three months it ought to be automatically approved.

On September 25th Olaf Scholz, the chancellor, will host a summit with 60 politicians, business leaders and representatives of civil society. At a pow-wow in Meseberg castle near Berlin, his cabinet recently passed measures to lighten the corporate-tax burden, including new rules on the deduction for wear and tear for builders. That is nowhere near enough, say industry types. They are demanding a relaxation of the green rules for buildings, more tax relief and help with high borrowing costs. If the government does not do something, the abyss beckons. ■

Digital technology

Island shopping

TikTok is wading into South-East Asia's e-commerce wars

IN MARCH TIKTOK'S chief executive, Shou Zi Chew, faced angry lawmakers in Washington, who grilled him for five hours on topics ranging from misinformation to mental health. A threat of a ban in America, the short-video app's largest market, looms large. Other Western governments are making similar noises. TikTok, which is owned by a Chinese firm called ByteDance, has already been locked out of India, another big market, since 2020 on grounds of national security.

Contrast that with the welcome Mr Chew received in June in Jakarta. He charmed a crowd in the Indonesian capital that included government officials with his plans for the company in South-East Asia, promising to invest "billions of dollars" in the region over the next few years. As uncertainty looms over its prospects elsewhere in the world, TikTok, which in 2020 moved its global headquarters to Singapore, is eyeing South-East Asia's nearly 700m consumers to bolster its fortunes. Reactions to his talk ranged from favourable to gushing—except among the region's digital incumbents.

That is because TikTok's ambitions in South-East Asia go beyond silly dance videos. In 2021 it launched TikTok Shop, which lets users buy products directly from the app. According to Momentum Works, a research firm in Singapore, last year products worth around $5bn were sold globally on its platform. This year the target is $20bn, with three-quarters of that coming from South-East Asian wallets.

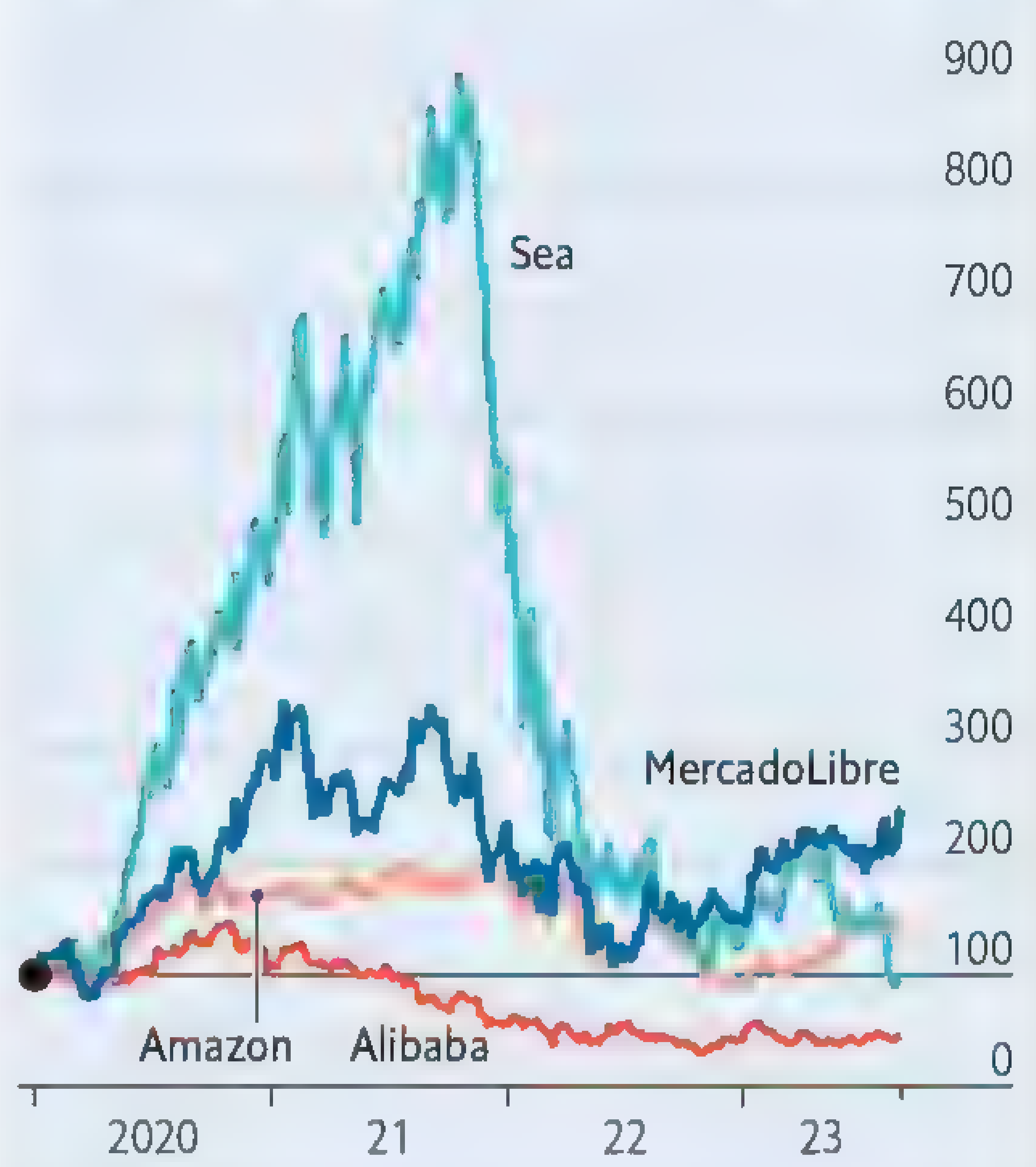
This foray into e-commerce comes at a volatile time for the sector in the region.

SEA faring

E-commerce, share of gross merchandise value

By country, 2022, %

Source: Momentum Works



Shopee till you drop

Share prices, January 1st 2020=100, $ terms

Source: Refinitiv Datastream

Shopee, which accounted for almost half the $100bn or so in goods sold online last year in South-East Asia (see chart 1), has reported two quarters of declining sales on its platform. The market value of its Singaporean parent company, Sea Group, is a tenth of the $200bn it reached in October 2021. Sea has cut staff, retreated from ventures beyond South-East Asia and, in August, told investors to brace for losses as it boosts spending in the face of rising competition. Lazada, a Singapore-based e-commerce platform that has probably never turned a profit, is on its fifth CEO in as many years. In March its Chinese parent, Alibaba, added more commotion by splitting itself into six companies.

Can TikTok take advantage of its rivals' troubles? The app certainly looks well-suited to South-East Asian online-shopping habits. It already has more than 300m users in the region. A study by Bain, a consultancy, and Meta, which owns Facebook and Instagram, found that nearly half of consumers there use social media, particularly short-video and messaging apps, to find products when shopping online. As in China, the home of "social commerce", the line between entertainment and commerce is blurred among those "mobile first" shoppers, notes Fred Liu of Hayden Capital, an investment firm. To lessen its reliance on live-streamed product reviews, TikTok is testing a marketplace tab in its app, which lets sellers list their goods on the platform without having to pay influencers to plug products in their videos.

Don't count the regional incumbents out just yet, though. Whereas TikTok Shop is dominated by things best-suited for promotional video and impulse purchases, such as clothes and cosmetics, its rivals offer a broader assortment of wares, from gadgets to furniture. Vion Yau of Momentum Works estimates that the average ▸▸

order value on TikTok is around $5, compared with $8 at Shopee and $10 at Lazada.

Shopee, Lazada and Tokopedia, another local champion, have also built their own logistics networks and payment systems to get around South-East Asia's tricky peninsular and archipelagic geography, and often shabby infrastructure. This allows the companies to operate more efficiently than TikTok, which relies on external suppliers to store and ship its products, giving it less control over the shopping experience and eating into margins. And though South-East Asians use social-media apps like TikTok to discover new products, they are less likely to buy them there. According to the report by Bain and Meta, more than half of shoppers switch to old-school e-commerce sites at the time of sale, lured by better quality and faster delivery times.

TikTok may overcome these hurdles. Thanks to its Chinese parent's $220bn valuation its pockets are deeper than most. But Shopee's belt-tightening has given Sea a cash buffer to defend its turf. Lazada got an injection of $845m from Alibaba in July. And the local incumbents are not TikTok's only competition. Last month Temu, an offshoot of Pinduoduo, another large Chinese e-commerce firm, quietly launched its online store in the Philippines. The battle for South-East Asia's online shoppers is only getting started. ■

Industrial action

Workers of the world unite

Trade unions take on more American firms—and not just in America

He loves labour's gains

Over the past four decades American bosses have grown unused to labour unrest. Ever since Ronald Reagan sacked thousands of striking air-traffic controllers in 1981, shortly after being elected president (and despite once leading the Hollywood actors' union), American trade unions have been relatively meek. America experienced an average of 17 big work stoppages (affecting 1,000 workers or more) a year from 2000 to 2022, down from 84 annually between 1977 and 1999. Union membership has fallen from a peak of 20m members in 1979 to just over 14m last year, split evenly between the public and private sectors. Just 6% of private-sector workers belong to a union these days, compared with more than 20% in the 1970s.

This year a confluence of tight job markets, accelerating technological change (think ChatGPT) and rising public support for unions (which enjoy a record 67% approval rate among Americans, according to Gallup, a pollster) has emboldened workers. Strikes are proliferating. There have been 16 big ones in the country in the first seven months of this year, up from 11 in the same period in 2022 and the most since 2005. Hollywood writers and actors are in a months-long standoff with studios. On August 30th 99.5% of unionised American Airlines flight attendants voted to go on strike. Workers at Detroit's big carmakers are threatening to follow suit.

If that weren't irksome enough for American bosses, some of their businesses are feeling the pain abroad, too. On September 8th workers at two Chevron plants producing liquefied natural gas (LNG) in Australia may halt work. They will down tools for up to 11 hours a day, escalating to a full-blown strike if no agreement on pay is reached. Offshore Alliance, the union representing Chevron's Aussie workers, recently rejected the energy supermajor's pay proposals, claiming that they were stingier than those offered by its second-rate competitors.

Chevron knows how to snuff out industrial action. Last year union workers at its refinery in California caved in and ended a ten-week strike without securing better pay. Demand for gas is lower at the end of the northern summer, which could weaken Offshore Alliance's bargaining position.

Yet a prolonged dispute down under could spell trouble for the American energy giant. The two Australian plants, Gorgon and Wheatstone, together made close to $7bn in net profits for their owner last year, contributing nearly a fifth to its bottom line. Moreover, nearly 90% of Chevron's LNG production from Australia is sold under long-term contracts, on which it would rather not renege. Chevron's bosses in America understand this. So do its workers across the Pacific. ■

Non-digital technology

Biding the Bullet

MUMBAI

The world's most enduring manufactured product

Companies can survive for aeons, but their products are usually ephemeral. Apple may be the world's most valuable business, yet the Apple II computer and the original Mac that provided the early foundation of its success live in museums, if at all. Apple's smartphone rival, Samsung, began by selling noodles. Ford's latest F-150 Lightning electric pickup truck shares little with the Model T except for four wheels. The dictum "If it ain't broke, don't fix it" carries little weight in a world of evolving technologies, business models and consumer tastes.

Unless, that is, you are Royal Enfield. In 1932 the motorcycle-maker, then based in Britain, launched the Bullet. Ninety-one years later the company, in Indian hands since 1994, has unveiled the latest version of the iconic two-wheeler. It looks virtually identical to the original.

Changes have, the company insists, been made to the engine (which boasts just two-thirds of the original's horsepower), the chassis and the seat. Yet besides a missing kick-start (which has provoked some grumbling from fans) and an added fuel gauge (which has elicited no comments), these are unnoticeable. Features common on other 21st-century motorbikes, like tachometers or temperature gauges—to say nothing of computer-assisted ride modes for different conditions—are absent. The ride and, as one YouTuber put it, "the sweet ▸▸


Motor memory

crunch sound of exhaust", are probably much the same as they would have been in the 1930s.

That gives the Bullet a strong claim to being the most unchanging vehicle in continuous production—and among the most immutable products ever manufactured (the AK-47 rifle has been around for a mere 75 years). It is also, in India, a commercial and cultural phenomenon. It still outsells most of Royal Enfield's other offerings, including more modern designs. More than 8,000 of an earlier version were sold in June. The total number on India's roads is hard to gauge but is almost certainly in the millions. And few items elicit the same degree of affection—not just from the country's motorcycle enthusiasts.

There are at least 1,200 devoted riding clubs. Specimens covered by a rusty patina can be seen chugging through fields in Punjab, over dangerous mountain slopes in Ladakh, and avoiding cows and cars on city streets. It is an indispensable piece of equipment for Bollywood heroes and villains alike. The Indian armed forces, which first sparked the Indian Bullet craze with an order of 500 two-wheelers in 1949 to patrol the country's northern border, has a stunt team who ride exclusively on Bullets. In 2017 the Tornadoes, as the squad is called, performed a feat of carrying 58 people on a single motorcycle.

All this, plus the fact that the machines never seem to expire and can be fixed anywhere by just about anyone, explains the Bullet's enduring popularity. For many Indians who can hardly imagine owning a home or even a car, the Bullet is at once aspirational and, at $2,400 a pop, just about obtainable. With such unchanging appeal, who needs change? ■

Bartleby Stranger things

How to make networking marginally less awful for introverts

CORPORATE LIFE throws up some stressful moments. Bringing bad news to your boss; facing an interview panel; making a big presentation. But few things are worse than networking if you are an introvert.

You arrive at an event to find that everyone there apparently knows each other already. And then you look more closely and spot the fellow-sufferers. They are the people who are actually reading the conference blurb. They look at email on their phones with greater intensity than ever happens at the office. They endlessly circulate the room, like bits of plastic in the ocean waiting to be snagged on something. They take a seat in the main hall while the sound engineers are still testing the microphones.

Fortunately, there is advice out there on how to break the ice with strangers. Unfortunately, it's abysmal. One sage counsels making contact in queues, because it is easier to talk to the person in front of you and behind you. You are meant to ambush people on the escalator, in the toilets and in the queue to get your name tag. In the line for coffee, open the door to jobs and sales by saying six incomprehensible words: "Juicing up for the big keynote?"

On it goes. Don't be afraid to laugh, because nothing drains the tension from a room like someone who cannot stop chuckling. Bring personal information into the conversation, lest people think you are at a conference on treasury-management software only for commercial gain. Use the other person's name twice, to appear truly engaged. And take notes on conversations afterwards so you can follow up with them.

Add these ingredients together, and you have the recipe for success:

"Juicing up for the big keynote?"

"What?"

"Juicing up for the big keynote?"

"I don't know what that means."

[Scan name badge] "Keith, is it?"

"Er, yes."

[Laughing] "I'm having a baby, Keith."

"Keith?"

[Take out notepad]

If this is how to network, no wonder people go to the main hall early.

Making contacts on a site like LinkedIn is a lot less stressful. There is no eye contact, after all, and the rules of the road are agreed. And all those connection requests do appear to help with careers. A paper published last year by Karthik Rajkumar of LinkedIn and co-authors from academia found empirical evidence for the insight that underpins all kinds of networking—that, because they bring you new information, more infrequent and distant relationships (or "weak ties") are more useful than close contacts.

The researchers randomly changed the "People You May Know" recommendations algorithm that LinkedIn shows its users, so that the prevalence of weaker and stronger connections varied among people on the site. The experiment showed that weaker ties (where a pair of users had only one mutual friend, say) were more likely to lead to job applications and job moves than those where people had 25 mutual friends or more.

This sounds like nirvana for introverts: start spamming everyone with connection requests, close the office door and wait for job offers. But it is not that easy. Even weak ties need tending. Even online, interacting with people is easier if you find it energising; a survey-based study of LinkedIn, by Joanna Davis of Augustana College and her co-authors, found that extroversion was a predictor of networking ability.

There isn't a genuinely painless way for introverts to network. Still, methods to do it exist that are wiser than standing in a queue and hoping the guy who doesn't know how to get coffee out of the machine is your ticket to career success.

The real secret is to save your energy for the people who are most likely to be interesting to you. In the online realm, for instance, Dr Rajkumar's study does not find that the weaker the tie, the better. The sweet spot in networking on LinkedIn is someone with moderately weak ties to you: connecting with a person with ten mutual friends markedly increases the probability of changing jobs compared with someone with just one shared friend.

In other words, networking pays off if you can identify people who can bring you new information but are close enough to your world that this information is useful. In the offline world, a tool like ChatGPT should make it easier to find useful prospects in a list of event attendees. But you still need to overcome all your instincts and approach them.

Schumpeter | The long goodbye

America's bosses are hanging around for longer. That could spell trouble

OF THE MANY worries that whirl around the minds of chief executives, few are more unsettling than the question of succession. Having toiled their way to the top of the corporate ladder, many bosses struggle to imagine relinquishing control and placing their legacy in the hands of another.

A growing number of America's bosses have instead opted to defer the matter altogether. By the end of last year 101 S&P 500 CEOs had held the corner office for more than a decade, up from just 36 ten years earlier, according to figures from MyLogIQ, a data provider. Although some, like Warren Buffett, the longest-serving of the lot with 53 years on the clock, built the companies they run, most are hired hands. Jamie Dimon of JPMorgan Chase, a bank, Shantanu Narayen of Adobe, a software firm, and Chris Nassetta of Hilton, a hotel franchise, are among the many who have outlasted their predecessors. Such long-serving chief executives have pushed up the average tenure of S&P 500 top dogs from six years to seven over the past decade.

Some bosses have become infamous for their reluctance to move on. Earlier this year Howard Schultz ended his third stint as boss of Starbucks, a coffee chain. Late last year Bob Iger took back the reins at Disney, a media giant, from his chosen successor, Bob Chapek. In July his two-year contract was extended until the end of 2026. The question of succession has long loomed over Mr Buffett's conglomerate, Berkshire Hathaway.

Of course, plenty of companies are well served by chiefs who hang around. And with populations healthier for longer, forcing bosses out once they reach an arbitrary retirement age, as many firms still do, is unnecessary. Yet the lengthening tenures of America's business leaders is a cause for concern.

In 1991 Donald Hambrick and Gregory Fukutomi, then both at Columbia Business School, published an influential paper on the "seasons" of a chief executive's tenure. They suggested that, in the early years, performance improves as the boss learns the ropes, but later declines as they become more resistant to change and less engaged in the job. A paper in 2015 by Francois Brochet of Boston University and co-authors sought to quantify that tipping-point by studying the relationship between market value and CEO tenure among listed American firms. They found that performance rose through roughly the first decade on the job before flattening off, then starting to dip after around 15 years.

"Eventually you lose the oomph and the creativity," says Bill George, who once ran Medtronic, a medical-technology company, and now teaches at Harvard Business School. That vigour is especially crucial when a company is in need of reinvention. Microsoft's transformation under Satya Nadella into a cloud-computing giant in the vanguard of artificial intelligence may never have happened had Steve Ballmer, who led the business through a period of stagnation from 2000 to 2014, stuck around.

An extended stay carries risks even when a chief executive's long stint seems justified by stellar performance. Mr Iger delayed retirement three times during his original 15-year spell as Disney's boss, leading a number of potential successors to try their luck elsewhere. Boards waiting to find a replacement CEO with experience comparable to the incumbent's necessarily find it harder the longer they delay, notes Jason Baumgarten of Spencer Stuart, a headhunting firm.

Ideally, succession planning should begin the day the CEO starts, says Claudia Allen of KPMG, a consultancy. That involves building a pipeline of candidates, assessing their skills and developing a plan to fill gaps. Public spectacles like the six-year saga to replace Jack Welch at GE, a once-mighty American industrial giant, are best avoided. Separating the roles of chief executive and chairman of the board can help, too (appointing a lead independent director is seldom sufficient to keep in check an almighty boss with both jobs, let alone sack one). Two in three S&P 500 CEOs who have been in the role for longer than a decade also chair the board, compared with two in five for the whole group.

Perhaps the most important rule for succession is to make a clean break. Bosses who hang around after their turn has ended do their successors a disservice. The most pernicious example of this is the chief executive who stays on as "executive chairman", a loosely defined title that gives its bearer the right to meddle in big decisions while shirking operational responsibility. James Gorman of Morgan Stanley will take on the title when he steps down as the bank's CEO in the coming months.

Last year 15% of S&P 500 companies were presided over by an executive chairman. Some, like Jeff Bezos and Rupert Murdoch, are founders eager to maintain a say over the companies they built. For the rest, the role may look like a handy way to smooth a transition. But it brings dangers. Predecessors may struggle to accept shifts in strategy, and confusion may reign as to who is ultimately in charge. During Mr Iger's stint as executive chairman of Disney, he and Mr Chapek clashed over a number of big decisions, denting the new hand's credibility.

Get an afterlife

That CEOs find it hard to let go is unsurprising, and not only because power is seductive. Many struggle with the sense that, having reached their professional pinnacle, there is little left to do, says Mr George. Rather than retiring to a life of leisure, he counsels bosses to find ways to make use of their wisdom. Some may choose to sit on boards. Others, like him, may teach. Others still may try their hand at politics. Before his latest return to Starbucks Mr Schultz toyed with a presidential bid; Mr Dimon is being urged by some to pursue one. It is uncomfortable to accept that an organisation you lead will survive without you. But stepping down need not mean stepping into obscurity. Many of America's bosses still have plenty to give—not least a shot for the next generation. ■

Life of luxury

The $100trn prize

NEW YORK

How the battle to manage your wealth will reshape global finance

THE ÜBER-RICH hire all kinds of people to make their lives easier. Landscapers maintain gardens, housekeepers tidy homes, nannies raise children. Yet perhaps no role is as important as that of the wealth manager, who is hired to protect capital.

These advisers are scattered across the globe in cities like Geneva and New York, and are employed as fiduciaries, meaning they are required to act in the interest of their clients. As such, they are privy to the intimate lives of the rich and famous, who must expose their secrets so advice may be offered on, say, the inheritance of a child born of an extramarital affair. Advisers also help families allocate investments, stash cash in boltholes, minimise tax bills, plan to retire, arrange to pass down wealth and satisfy unusual wishes. A Singapore-based manager recalls being told to invest a "double-digit" percentage of a family's wealth in "bloodstock horses"—steeds bred especially for racing—a term he hurriedly looked up after the meeting.

→ Also in this section

For decades wealth management was a niche service, looked down upon by the rest of finance. Now it is perhaps the most attractive business in the industry. Capital and liquidity requirements set after the global financial crisis of 2007-09 have made running balance-sheet-heavy businesses, such as lending or trading, difficult and expensive. By comparison, doling out wealth advice requires almost no capital. Margins for firms that achieve scale are typically around 25%. Clients are loyal, meaning that revenues are predictable. Competition has crushed profits in other formerly lucrative asset-management businesses, such as mutual funds. And whereas the pools of assets managed by BlackRock and Vanguard, the index- and exchange-traded-fund giants, are huge, they collect a fraction of a penny on every dollar invested. A standard fee for a wealth manager is 1% of a client's assets, annually.

Wealth management is all the more appealing because of how quickly it is expanding. The world economy has grown at a decent enough clip over the past two decades, at more than 3% a year. Yet it has been left in the dust by growth in wealth. Between 2000 and 2020 the total stock rose from $160trn, or four times global output, to $510trn, or six times output. Although much of this wealth is tied up in property and other assets, the pool of liquid assets is still vast, making up a quarter of the total. Bain, a consultancy, estimates that the pool will expand from just over $130trn to almost $230trn by 2030—meaning that a $100trn prize is up for grabs. They expect the boom to help lift global wealth-management revenues from $255bn to $510bn.

It will be fuelled by geography, demography and technology. The biggest managers are attempting to cover ever more of the globe as dynastic wealth is created in new markets. Baby-boomers are the last generation that can rely on defined-benefit pensions for their retirement; more people will have to take decisions about how their own wealth will support them. Meanwhile, software is streamlining the bureaucracy that once waylaid wealth managers, enabling them to serve more clients at lower cost, and helping firms automate the acquisition of new ones. These gains will allow big banks to serve the merely rich as well as the über-wealthy. Firms are already climbing down the rungs of the wealth ladder, from ultra-high-net-worth and high-net-worth clients, who have millions of dollars to invest, into the lives of those with just $100,000 or so.

Markus Habbel of Bain sees a comparison to the booming luxury-goods industry. Handbags were once prized for their exclusivity as much as their appearance, but have become ubiquitous on social media, with influencers touting Bottega Veneta ▸▸

pouches and Hermès bags. "Think about Louis Vuitton or Gucci. They have basically the same clients as [wealth managers] target and they increased from 40m [customers] 40 years ago to 400m now," he notes. Upper-crust buyers have not been put off.

Which firms will grab the $100trn prize? For the moment, wealth management is fragmented. Local banks, such as BTG in Brazil, have large shares of domestic markets. Regional champions dominate in hubs, including Bank of Singapore and DBS in Asia. In America the masses are served by specialist firms such as Edward Jones, a retail-wealth-management outfit in which advisers are paid based on commissions for selling funds. Only a handful of institutions compete on a truly global scale. These include Goldman Sachs and JPMorgan Chase. But the two biggest are Morgan Stanley and a new-look UBS, which has just absorbed Credit Suisse, its old domestic rival. After acquiring a handful of smaller wealth-management firms over the past decade, Morgan Stanley now oversees around $6trn in wealth assets. Following its merger, UBS now oversees $5.5trn.

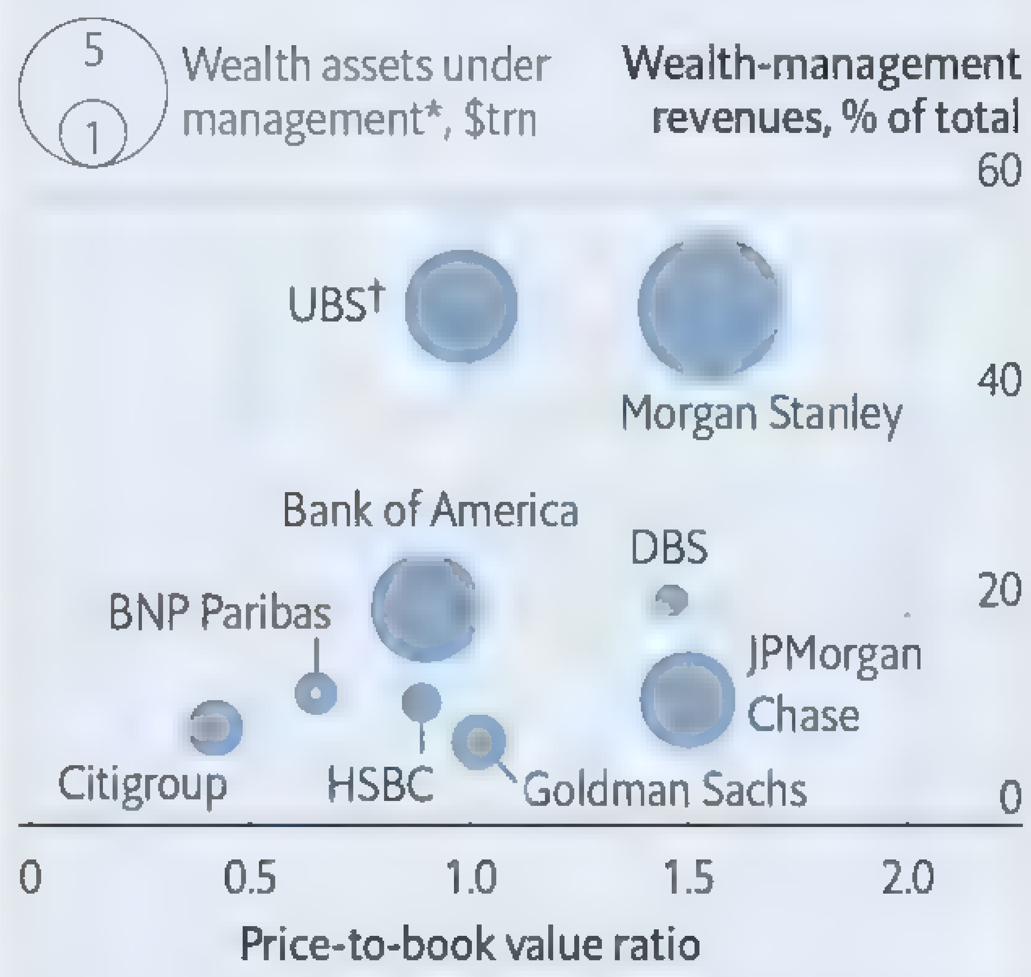
This patchwork is unlikely to last. "The industry is heading in a winner-takes-all direction," predicts Mr Habbel, as it becomes "very much about scale, about technology and about global reach". Jennifer Piepszak, an executive at JPMorgan, has reported that her firm's takeover of First Republic, a bank for the well-heeled that failed in May, represents a "meaningful acceleration" of its wealth-management ambitions. Citigroup has poached Andy Sieg, head of wealth management at Bank of America, in an effort to revamp its offering. In 2021 Vanguard purchased "Just Invest", a wealth-technology company.

UBS and Morgan Stanley have grander ambitions. The firms' strategies reflect their contrasting backgrounds, and may in time produce a clash. Morgan Stanley competes globally but dominates in America, and is focusing on wealth services for the masses, as shown by its purchase in 2020 of E*TRADE, a brokerage platform. James Gorman, the bank's boss, has said that if the firm keeps increasing new assets by around 5% a year, its current growth rate, it would oversee $20trn in a decade or so.

This may be possible thanks to Morgan Stanley's existing scale. In 2009 the bank agreed to acquire Smith Barney, Citi's wealth-management arm, for $13.5bn, which helped boost margins to the low teens from 2% or so in the years before the financial crisis. Today they are around 27%, reflecting the use of tech to move into advising the merely rich. Andy Saperstein, head of the wealth-management division, points to the acquisition of Solium, a small stock-plan-administration firm, which Morgan Stanley purchased for just $900m in 2019, as crucial for building a strong client-referral machine. "No one was looking at the stock-plan-administration companies because they didn't make any money," he says. But these firms "had access to a huge customer base and [clients] were constantly checking to see when the equity was going to vest, what it was worth and when they would have access to it."

Managing up

Selected banks, Q2 2023



*Private banking or private-wealth assets under management, Q2 2023 or latest †Includes assets managed by Credit Suisse
Sources: Bloomberg; Finews Asia; company reports; *The Economist*

Swiss role

UBS is employing a more old-school approach, albeit with a global twist. Having taken over its domestic rival, the Swiss bank has a once-in-a-generation chance to cement a lead in places where Credit Suisse flourished, such as Brazil and South-East Asia. Deft execution of the merger would make the firm a front-runner in almost every corner of the globe. Thus, for now at least, the new-look UBS will focus more on geographic breadth than the merely rich.

In differing ways, both Morgan Stanley and UBS are seeking even greater scale. When clients hire a wealth manager they tend to want one of two things. Sometimes it is help with a decision "when the cost of making a bad choice is high", says Mr Saperstein, such as working out how to save for retirement or a child's education. Other times it is something exclusively available, such as access to investments unobtainable through a regular brokerage account.

Gold rush

Liquid assets under management, $trn

Source: Bain

Being able to offer clients access to private funds or assets will probably become increasingly important for wealth managers. Joan Solotar of Blackstone, a private-equity giant, says that a quarter of the firm's assets already come from individuals, and most arrive via big banks. Greater scale for wealth managers means greater bargaining power when negotiating with private-markets firms to secure exclusive deals, such as private funds for customers or lower fees. Younger generations, which will soon be inheriting wealth, are expected to demand more environmentally and socially conscious options, including those that do not just screen out oil companies, but focus on investing in, say, clean energy. A decade ago a client would tend to follow their wealth adviser if he or she moved to a new firm. Exclusive funds make such a switch more difficult.

The winner-takes-all trend may be accelerated by artificial intelligence (AI), on which bigger firms with bigger tech budgets already have a head-start. AI could be used to create three kinds of tool. The first would take a firm's proprietary information, such as asset-allocation recommendations or research reports, and spit out information that advisers can use to help their clients. Attempts to build such tools are common, since they are the easiest to produce and pose few regulatory issues.

The second type of tool would be trained on client information rather than companies' proprietary data, perhaps even listening in on conversations between advisers and clients. Such a tool could then summarise information and create automatic actions for advisers, reminding them to send details to clients or follow up about certain issues. The third kind of tool is the most aspirational. It would be an execution tool, which would allow advisers to speak aloud requests, such as purchasing units in a fund or carrying out a foreign-exchange transaction, and have a firm's systems automatically execute that transaction on their behalf, saving time.

It will take money to make money, then. The biggest wealth managers already have hefty margins, access to products their clients want and a head start on the tech that might put them even further ahead. "We are a growth company now," claims Mr Saperstein of Morgan Stanley, a sentence that has rarely been uttered about a bank in the past 15 years. "We are just getting started."

Yet the two giants are both going through periods of transition. UBS has

barely begun the open-heart surgery that is required when merging two large banks. Meanwhile, Mr Gorman, the architect of Morgan Stanley's wealth strategy, will retire some time in the next nine months. The succession race between Mr Saperstein, Ted Pick and Dan Simkowitz, two other executives, is already under way. Either firm could falter. Although the two are chasing different strategies, it is surely only a matter of time before they clash. UBS is on an American hiring spree; Morgan Stanley is eyeing expansion in some global markets, including Japan.

And despite the advantages offered by scale, smaller firms will be hard to dislodge entirely. Lots of different types of outfit have a foothold, from customer-directed brokerage platforms, like Charles Schwab, which also offer their richest customers advice from a fiduciary, to asset-management firms, such as Fidelity and Vanguard, which have millions of customers who might seek advice. "Back in the day, when our programme was started, it was focused on how you help people manage their wealth using mutual funds. But the business has evolved," says Rich Compson of Fidelity. The firm's wealth arm, which oversees \$1.8trn, also offers advice on ways to use individual securities, exchange-traded funds and alternative investments.

When Willie Sutton, a dapper thief also known as Slick Willie who died in 1980, was asked why he robbed banks, he replied that it was "because that's where the money is". The aphorism helps explain strategy on Wall Street, as firms race to take advantage of the \$100trn opportunity in wealth management. Once the business was a sleepy, unsophisticated corner of finance. Now it is the industry's future. ■

Buttonwood Home and dry?

Think twice before envying those on fixed-rate mortgages

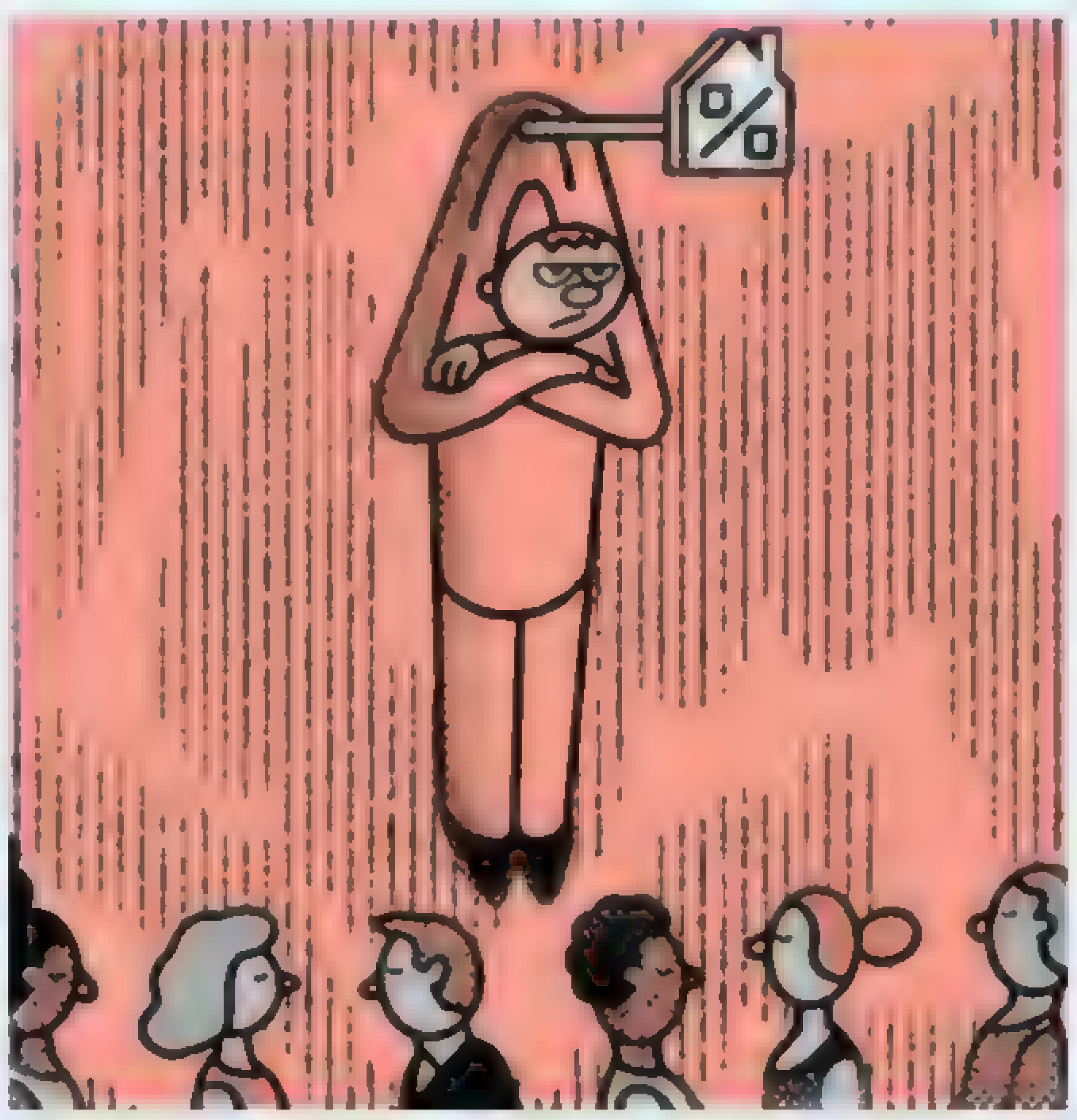
FEW ASSETS are as political as housing, and therefore few markets depend as much on national borders as those for mortgages. Governments can twiddle endless dials to control what goes on, concerning everything from how much you can borrow and who can lend, to what they can do if you stiff them. For today's borrowers, though, one dial feels most urgent: how long is your fix?

If you are American or Danish, the answer may well be that you have a fixed interest rate for the duration of your mortgage. As a result, you may pay as little attention as you wish to hawkish central bankers and climbing bond yields. In many other countries—including Britain, Canada and much of southern Europe—mortgage rates tend to be fixed for a few years at most, or not at all. If you fall into this group, you may recently have devoted rather more thought to monetary policy than you would like, since (congratulations!) you are one of its transmission channels. Faced with imminently rising payments, you might be looking enviously at those who need never worry about them.

Things are not as great as they first appear for this group, however. America's frozen housing market, with home-owners unwilling to sell and lose the low rates they locked in during the cheap-money years, should alert policymakers to the dangers of long-term fixes. For mortgage-payers, there is a more straightforward reason to be wary of such lending. A lifetime rate might offer psychological safety. But it is safety you must pay through the nose to achieve.

To see why, start with how fixed rates are set. Whoever is lending to you—bank, building society or bond investor—is either borrowing the money themselves (from depositors, say) or forgoing lending it to someone else (such as by buying government bonds). In both cases they are giving up interest payments elsewhere. Your mortgage rate needs to compensate for this if they are to lend at all. One compensation method is a rate that floats on market conditions, always matching the interest payments the lender is losing elsewhere. The other is a rate that is fixed for a set number of years, at the average funding cost the lender expects over the course of the period.

The catch is that you might want to repay your mortgage early—to move house, for instance. On a floating rate, the lender is unlikely to mind. After all, they are able to take your repayment and lend it to someone else for the same income. But on a fixed rate, they may mind considerably. Suppose you originally agreed to pay 5% interest for 30 years, then want to pay it back at a time when the equivalent market rate has fallen to 3%. In such a scenario, your lender will no longer be able to lend out your repayment for anything like the same income. Again, they will want compensation: the two-percentage-point difference, multiplied by the however-many years left on the mortgage, multiplied by your average remaining balance. A lot, in other words.



Hence the unpopularity of 30-year fixed rates in much of the world. Few borrowers want to risk huge prepayment costs if their circumstances change and markets have moved in the wrong direction. One solution is for regulators to cap costs, but this just discourages lending on long-term fixes in the first place.

Next to this, the alternative solution adopted by America and Denmark seems almost like alchemy. In both countries, mortgages can be fixed for 30 years and are prepayable at face value at the borrower's demand. Americans experience no profit or loss regardless of how rates have moved. Danish borrowers similarly pay no penalty if rates have fallen (making their fixed rate expensive by comparison) but can realise a profit if rates have risen. This means that, unlike Americans, Danes need not worry about surrendering a cheaper-than-market rate to move, and can do so more freely.

Yet there is a price for everything, and in this case the price is eye-wateringly high borrowing costs. The average rate on a new, 30-year American mortgage stands at 7.2%, whereas the 30-year Treasury rate is just 4.4%. In Denmark the equivalent rates are 5.3% and 2.9%. In Britain, meanwhile, borrowing costs for mortgage-holders and the government are broadly similar. Put differently, both long-term fixes add more than a third to each of the 360 monthly mortgage repayments in question. Those who had the enviable foresight to secure rock-bottom rates a couple of years ago may not mind much. Everyone else, no matter how envious, should remember that safety doesn't come cheap.

Oil sales

Crude sophistication

Russia tries new tactics to keep export proceeds afloat

THE BONANZA could not last for ever. After reaching record volumes in recent months, despite Western embargoes, dwindling production and the risks of navigating the Black Sea, Russia's crude shipments fell to 3m barrels a day (b/d) in August, some 800,000 lower than the April-May average and below pre-war levels. They are likely to remain sub-par. On September 5th Russia said it would extend a "voluntary" 300,000 b/d cut first announced for August to the end of 2023 (the baseline for this reduction is unclear).

Sagging exports deprive the Kremlin of treasure just when it wants to replenish its military arsenal. In August federal-tax revenues from crude sales dropped to $8bn, down from $10bn in July and $13bn in August last year, according to estimates by Viktor Kurilov of Rystad Energy, a consultancy (see chart). The rouble, which was for a long time another symbol of Russian resilience, has crashed to near 100 to the dollar, its cheapest since the invasion. Both slumps have injected urgency into Russia's efforts to earn more money from every drop of crude it pumps out. Three types of tactic feature in its new playbook.

The first—chasing higher prices for the fewer barrels it sells—has faced difficulties. Between January and August, the price of Urals, Russia's main grade of crude, averaged $59 a barrel, down from $83 in the first eight months of last year. This was mostly because of a lower global oil price, which fell from $104 to $81 over the period. But Western embargoes, which make it easier for other buyers, such as China and India, to negotiate down prices probably played a part, too. So did the G7's "price cap", which bans Western shippers and insurers from facilitating Russian crude exports unless fuel is sold below $60 a barrel.

Black magic

Russia, federal-government tax revenue from oil and gas production, $bn

Source: Rystad Energy

More recently, though, the strategy of chasing higher prices has seen some success. Expectations of peaking interest rates in America, as well as production cuts both by Russia and Saudi Arabia, have helped lift the global oil price, which rose above $90 a barrel for the first time this year on September 5th. That benefits Russia, which has recently built a "grey" fleet of tankers—often ageing ships owned by obscure intermediaries in the Gulf, Hong Kong or Turkey—and a state-backed insurance system which insulates much of its distribution network from the price cap's effects. It is also shipping less from the Black Sea and more from its Baltic and far-eastern ports, where breaches of sanctions are harder to detect. Since mid-August Urals has been trading above $70 a barrel.

The West is unlikely to push for stricter enforcement of its price cap: it wants to keep Russian oil flowing to avoid supply shortfalls later this year if the global economy rebounds. Therefore gains in the price of Urals look secure, even if it will be difficult to persuade customers to accept smaller discounts relative to the global oil price. India insists that the rising price of Urals has eroded the grade's competitive edge, especially compared with Gulf crude. This is a little disingenuous. Urals continues to trade at a solid $7 rebate to the cheapest grade of Saudi crude, reckons Kpler, a data firm, despite being a superior blend. India's obduracy hints that it probably has the upper hand in talks.

As Russia sells less crude, it is also trying to sell more of its premium refined oil—its second tactic for keeping proceeds afloat. To do so, it can process more crude through its refineries by mobilising idle capacity, which Kpler estimates at 10% of the total. Analysts reckon it will postpone much of the maintenance scheduled for this month to autumn next year. And it is maximising yields of diesel, a highly profitable product, to the detriment of jet fuel. In August the country exported more such "clean" products than during the same month in any of the past six years.

The third way that Russia is trying to compensate for lower crude shipments is by developing new channels to distribute its oil. Exporters are discreetly cranking up piped flows to those European countries that still can, and do, buy Russian oil: namely, the Czech Republic and Hungary. Analysts expect this to continue until 2025, by when the Czech pipeline operator should have capacity to take more crude from a conduit linking it to Italy.

Russia is also starting to send more cargoes through the Arctic, which could cut the cost of shipments to China. The route is 30-45% shorter than those departing from the Baltic and Barents seas. Kpler data show an eight-fold rise in Russian crude tankers using this path in 2023. Navigating the Arctic is possible only in the summer and early autumn but Russia, betting on global warming, is targeting year-round sailing by 2025. That may come too late to support the war effort. Much of what will decide Russia's export receipts in the interim—starting with the state of the global economy—remains beyond its control. ■

Heading to a Czech forecourt

Correction: In a story last week ("Making money"), we suggested that there would be a row over which country's artist would feature on a €500 note. In fact, the highest denomination will be €200. Sorry.

Official blessing

Farewell to a giant

MUMBAI

A remarkable era in Indian finance comes to an unfortunate end

MOST PEOPLE would go to London, New York or Hong Kong to find the world's outstanding financiers. But perhaps Mumbai deserves a look. After all, it is home to three men who rebuilt India's banking system after its enfeeblement by a wave of socialist experiments that began in the 1950s. The last of these giants, Uday Kotak, announced his retirement from Kotak Mahindra Bank on September 1st.

First to retire, in 2020, was Aditya Puri, who left Citibank in the 1990s to create HDFC Bank, which is now worth almost twice as much as his former firm. Second, in June this year, was Deepak Parekh, who left Chase in the 1970s to build one valuable institution himself, in housing finance, before assisting others, including Mr Puri. Finally, Mr Kotak leaves behind an outfit that leads in areas from conventional lending and investment banking to asset management and insurance. The earliest investors in his project received unimaginable returns: a $120 stake would be worth $40m today. His company went public in 1992; its shares have since made a gain of 12,000%.

Each of the three giants played a part in recreating a dynamic private sector. The government had taken a sledgehammer to Indian finance, starting in the 1950s with the nationalisation of insurance firms, before taking over private-sector banks between 1969 and 1980. Mr Kotak began his work in 1985, not long after leaving business school. His first activity, like that of Goldman Sachs's founder Marcus Goldman, was discounting notes. Mr Kotak paid 12% for funds he lent at 16% to suppliers waiting for payment by Tata, a conglomerate, and other companies with strong credit. In 1989 he moved into automotive finance. Cars were in short supply, making them excellent collateral. Mr Kotak arranged to buy in bulk from Maruti Suzuki, the leading manufacturer, then distributed the vehicles through dealerships on the condition that they were financed.

As India's economy opened up in the 1990s, Mr Kotak started new subsidiaries: investment banking for public listings, then insurance and finally commercial banking in 2003. He was not alone in seeing opportunity. Thousands of financial institutions were established in India during the 1990s only to be wiped out by the global financial crisis of 2007-09. But Mr Kotak, along with Messrs Parekh and Puri, avoided the common mistake of providing credit based on political and personal criteria, and made it through.

Kotak Mahindra's market capitalisation peaked in 2021 at $59bn. It has since dropped to $42bn, despite superb growth, profits and credit quality. The peak came just after a rule on bosses' tenure was imposed by the Reserve Bank of India (RBI), which set a firm end to Mr Kotak's time in charge. (Mr Puri suffered a similar fate.) Rather than push on to the last day, Mr Kotak stepped aside a bit early, noting he had a large event to plan: his son's wedding.

The names of two candidates to succeed Mr Kotak have been submitted to the RBI for its blessing, as is now required. The head of the central bank, in turn, is appointed by the prime minister. Although an era of explicit financial nationalisation has ended, a quieter one has emerged. ■

Asian exposure

Damage control

TAIPEI

China's slowdown rattles neighbours

BALI, A HOLIDAY destination in Indonesia, and Busan, a port in South Korea, are not easily confused. The former produces little industrial machinery; the latter falls short on year-round tropical weather. But the two have something in common. They are among the regions of Asia now imperilled by the less-than-impressive reopening of China's economy, and the prospect of a prolonged slowdown.

Many Asian countries benefited from Chinese growth over the past two decades, becoming entwined with the world's second-largest economy. Since China is in the midst of a real-estate slump, with property investment down 9% in the first seven months of the year, these countries now face a headache. China is less of a big buyer of their wares than it was. According to data released on September 7th, its imports dropped by 7.3% in the year to August.

Won direction

Currencies against the $

Jan 2nd-Sep 6th 2023, % change

Source: Refinitiv Datastream

In the richer parts of the continent, makers of semiconductor circuits and car parts are nursing losses. South Korean exports to China fell by 20% year on year in August. On September 4th the government pledged fresh support, announcing loans for exporters worth up to 181trn won ($136bn), in addition to tax breaks and other schemes earlier in the year. Between January and July exports from Taiwan to mainland China and Hong Kong fell by 28% against a year before. Almost 10% of the country's GDP is driven by mainland Chinese consumption and investment, estimates Goldman Sachs, a bank.

Some exporters may hope that China's slump, which has been exacerbated by a global slowdown in sales of electronic goods, has bottomed out, since the year-on-year decline in imports has stabilised. But most do not expect a rapid turnaround. The Korean Chamber of Commerce and Industry recently published a survey of 302 domestic companies that export to China. Almost four in five expected the slump to continue. Without more fulsome stimulus from the Chinese government, such low expectations are likely to be met.

In South-East Asia tourist numbers are yet to return to anything like their pre-covid levels. Thailand received just 1.8m Chinese travellers between January and July, compared with more than 11m in 2019. A new government in Bangkok last week announced it would relax visa rules to encourage Chinese visitors to return. Several countries in the region have tourism industries large enough to affect their overall balance of trade. In Cambodia, Laos, Malaysia and Thailand, tourism accounted for between 9% and 25% of total exports in 2019—before covid struck—with China the largest source of visitors to all four.

A few Asian countries, such as India, Indonesia and the Philippines, are less exposed to the slowdown, according to Vincent Tsui of Gavekal Research. Their smaller industrial bases mean they have forged fewer Chinese connections over the past two decades. Mr Tsui believes this lower exposure accounts for the better performance of the countries' currencies against the dollar this year (see chart).

Even during an economic slump, not everything moves in the same direction. Thailand's exporters of durian, a pungent fruit that is inexplicably popular across much of Asia, have been recent winners. In the first seven months of the year, Chinese imports of the fruit have risen by 52%, relative to the same period last year. Thai officials credit new transport links, particularly a train line connecting Laos and China, for the boom. Sadly for the rest of Asia, not everyone is a Thai durian farmer. ■

Political economy

Prophets of maximisation

How Chicago school economists reshaped American justice

IN RECENT YEARS the antitrust division of America's Department of Justice has gone on a crusade against corporate mergers, filing a record number of complaints in an attempt to stop the biggest businesses from getting even bigger. With few exceptions, these efforts have been thwarted by the courts. That it is so hard to get a judge to intervene in business reflects the work of an institution known more for its free-market influence on economics than the law: the University of Chicago.

Fifty years ago this autumn Richard Posner, a federal judge and Chicago scholar, published his "Economic Analysis of Law". Now in its 9th edition, the book set off an avalanche of ideas from Chicago school economists, including Gary Becker, Ronald Coase and Milton Friedman, which passed into the folios of America's judges and lawyers. The "law-and-economics" movement made the courts more reasoned and rigorous. It also changed the verdicts judges handed out. Research has found that those exposed to its ideas are more opposed to regulators and less likely to enforce antitrust laws, and tend to impose prison terms more often and for longer.

Links between economics and the law have long been studied. In "Leviathan", published in 1651, Thomas Hobbes wrote that secure property rights, which are needed for a system of economic exchange, are a legal fiction that emerged only with the modern state. By the late 19th century, legal fields that overlapped with economics, such as matters of taxation, were being analysed by economists.

With the arrival of the law-and-economics movement, every legal question was suddenly addressed in the context of the incentives of actors and the changes these produced. In "Crime and punishment: an economic approach" (1968), Becker argued that, rather than being a balancing-act between punishment and the opportunity for reform, sentences act mainly as a deterrent: the literal "price of crime". Harsh sentences, he argued, reduce criminal activity in much the same way as high prices cut demand. With the caveat that a greater chance of arrest is a better deterrent than longer prison sentences, Becker's theorising has since been borne out by decades of empirical evidence.

Too steep?

In the movement's early days, "the legal academy paid little attention to our work", recalls Guido Calabresi, a former dean of Yale Law School and another of the field's founding fathers. Two things changed this. The first was Mr Posner's bestselling textbook, in which he wrote that "it may be possible to deduce the basic formal characteristics of law itself from economic theory." Mr Posner was a jurist, who wrote in a language familiar to other jurists. Yet he was also steeped in the economic insights of the Chicago school. His book successfully thrust the law-and-economics movement into the legal mainstream.

The second factor was a two-week programme called the Manne Economics Institute for Federal Judges, which ran from 1976 until 1998. This was funded by businesses and conservative foundations, and involved an all-expenses-paid stay at a beachside hotel in Miami. It was no holiday, however, even if those who went nicknamed the conference "Pareto in the Palms". The curriculum was extremely demanding, taught by economists including Friedman and Paul Samuelson, both of whom had won Nobel prizes.

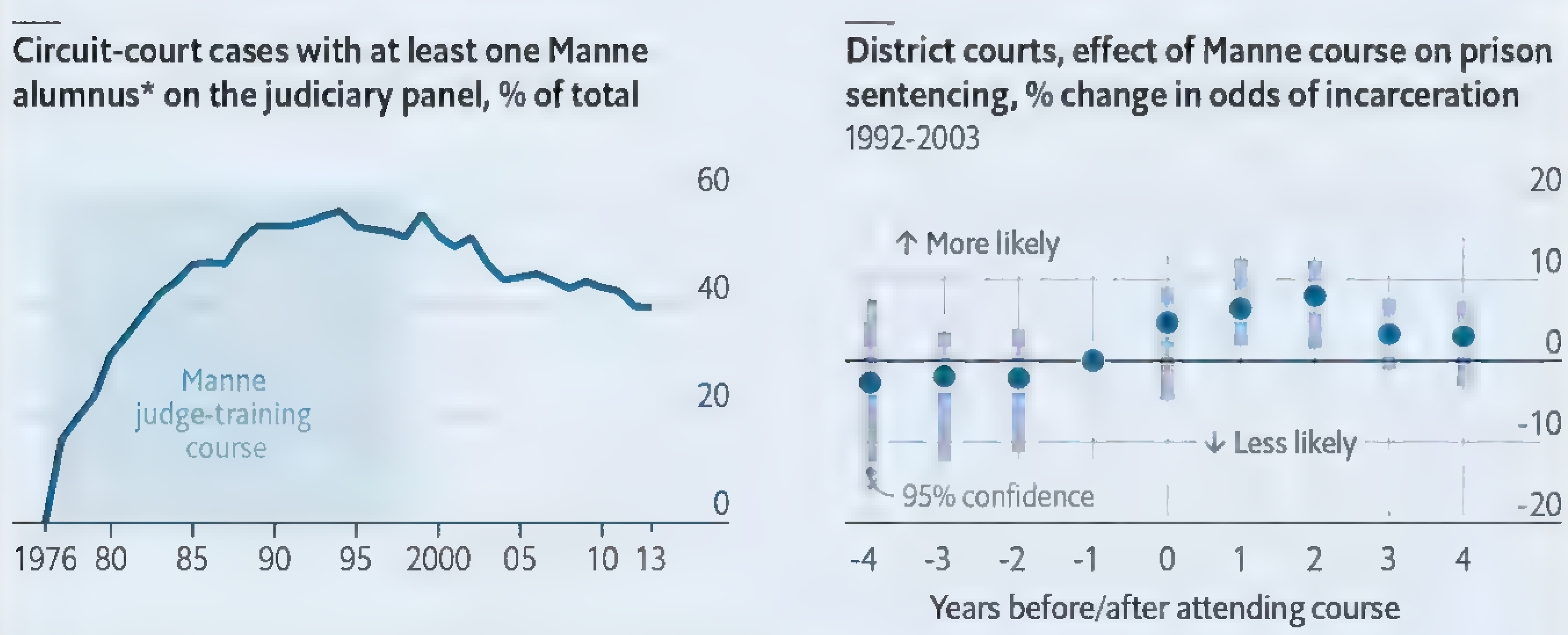
By the early 1990s nearly half the federal judiciary had spent a few weeks in Miami. Those who attended included two future justices on the Supreme Court: Clarence Thomas (an arch conservative) and Ruth Bader Ginsburg (his liberal counterpart). Ginsburg would later surprise colleagues by voting with the conservative majority on antitrust cases, applying the so-called "consumer welfare standard" championed by the Manne programme. This states that a corporate merger is anticompetitive only if it raises the price or reduces the quality of goods or services. Ginsburg wrote that the instruction she received in Miami "was far more intense than the Florida sun".

In a paper under review by the *Quarterly Journal of Economics*, Elliot Ash of ETH Zurich, Daniel Chen of Princeton University and Suresh Naidu of Columbia University treat the Manne programme as a natural experiment, comparing the decisions of every alumnus before and after their attendance at the conference. They then use an artificial-intelligence approach called "word embedding" to assess the language in judges' opinions in more than a million circuit- and district- court cases.

The researchers find that federal judges were more likely to use terms such as "efficiency" and "market", and less likely to use those such as "discharged" and "revoke", after time spent in Miami. Manne alumni took what the authors characterised as the "conservative" stance on antitrust and other economic cases 30% more often in the years after attending. They also imposed prison sentences 5% more frequently and of 25% greater length. The effect became stronger still after 2005, when a Supreme Court decision gave federal judges greater discretion over sentencing.

That researchers are turning the unforgiving lens of economic analysis on law and economics itself is a promising trend. The dismal science has come a long way since the heyday of the Chicago school. Thanks in large part to the empiricism of behavioural economics, it is less wedded to abstractions like the perfectly rational actor. This has softened some of the Chicago school's harsher edges. But it will nevertheless take time for judges to modify their approach. As Mr Ash notes: "The Chicago school economists may all be retired or dead, but Manne alumni continue to be active members of the judiciary." In courtrooms across America, Mr Posner's influence will live on for decades to come. ■

Free market, incarcerated criminals
United States



Source: "Ideas have consequences: the impact of law and economics on American justice", by E. Ash et al., NBER working paper, 2022

*Of the Manne Economics Institute for Federal Judges course

Free exchange | Pet theories

Argentina needs to default, not dollarise

MILTON FRIEDMAN looms large in the personal and political life of Argentina's probable next president. Javier Milei's ideas, which carried him to an unexpected victory in the country's primaries in August, take cues from the 20th century's most prominent free-market economist. Friedman influenced both Mr Milei's opinions on the ideal size of the state (tiny) and its role in the economy (non-existent). So deep is Mr Milei's admiration that he has christened one of his four pet mastiffs in Friedman's honour. The former economics lecturer told *The Economist* in a recent interview that Milton and his other dogs, all of which are named for economists, make "the best strategic committee in the world".

The most far-reaching of Mr Milei's Friedman-influenced proposals is to dollarise the economy. This would involve replacing the peso with the greenback, and mean getting rid of Argentina's central bank, which Mr Milei calls "the worst thing in the universe". He exaggerates, but only a little. Argentina's economy is in tatters. Annual inflation is at 113%. The central bank has exhausted its dollars. The peso's value against the American currency has halved since the beginning of the year. In short, the time for radical thinking has arrived. Unfortunately, dollarisation is more likely to be a curse than a solution to Argentina's problems.

When a country hitches its economy to another's currency, it gives up on making its own monetary policy. Interest rates would be determined by the Federal Reserve, making them more predictable and just about impossible to fiddle. For a country with a record as chequered as Argentina's, this would relieve a number of headaches. Most Argentines use dollars anyway. Making this state of affairs official would allow the public to avoid the hassle of converting back and forth from the American currency to pesos. Exchange rates for dollars, the world's most heavily traded currency, would be unmoved by anything happening in Argentina, a fairly small economy, meaning currency values would no longer seesaw. It is a formula that, for a while at least, kept things relatively stable in Ecuador after it dollarised in 2000.

The main draw, however, is that Argentina would be blocked from printing cash. Friedman was critical of central banks, convinced that most are too weak to keep inflation in hand, since doing so means standing firm against pressure from politicians to make it easier to pay bills or to let the economy run hot at election time. As Mr Milei is quick to point out, Argentina's central bank has been one of the most irresponsible. Dollarisation would put the printing presses firmly out of reach. This means, proponents argue, that it would be only a matter of time before the state downsizes and the long battle with inflation comes to an end.

Yet this argument has a problem: it takes an unrealistically rose-tinted view of governments. It assumes that politicians—aware that they are no longer able to call on the central bank in a crisis—will automatically reduce their borrowing to a safe level. This would be true if the only reason governments were borrowing too much was because they knew that the central bank would bail them out. In reality, most governments borrow because there is enormous pressure to do so. Lenders need repaying. Bureaucracies must be restructured. Opposition parties push incumbents to spend. And, most pressing of all, voters come to expect certain services from the state. The absence of printing presses is not sufficient to outweigh these concerns.

When a disaster strikes, things get scary in a dollarised economy. There is no central bank to act as lender of last resort to either the government or the banking system. Defaults thus become much more likely. Banks that could have been saved with emergency liquidity fail, and the government lacks the dollars to cover deposits, leaving millions out of pocket. Moreover, most borrowing could by then be under American law, putting the government on the back foot in any restructuring negotiations.

Indeed, Ecuador is currently experiencing many of the downsides of dollarisation. When the policy was introduced, it stabilised prices straight away. But it also failed to stem the government's fiscal deficits. Policymakers have since resorted to increasingly creative ways to finance the bill, pushing the country into a deal with IMF in 2019.

Milei, rocked

A future in which Argentina falls into disaster is more easily foreseeable than one in which policymakers see through the tough decisions required to make a success of dollarisation. Fiscal excess has been a problem for the better part of a century. The country has had 22 IMF bail-outs over the past 65 years, leaving the fund so exhausted that it has given up demanding the country break even. A string of left-wing governments have built a sprawling welfare state and vast bureaucracy. Mr Milei promises cuts worth 15% of GDP, to a public sector that accounts for 38% of GDP, but struggles to outline where they will come from.

There are plenty of other problems. A significant one is how Mr Milei's government would find the $40bn his team thinks is necessary to make the switch to dollars. Currently Argentina cannot even repay the IMF, to which it owes $44bn. Having run out of American currency, the central bank is instead burning through yuan borrowed from China. Mr Milei has suggested selling state-owned firms and government debt in an offshore fund to raise the necessary capital. It is hard to imagine there will be many buyers.

Whoever takes power in December will be starting from a terrible position. Forget about finding the money to enable dollarisation. Growing numbers of economists reckon that the country is once again insolvent, meaning that it will be almost impossible for it to pay back its existing debts. The country's bond prices reflect the fact that financial markets are pricing in another debt restructuring. In order to make a fresh start, Argentina may need to default, not dollarise. ■

Green energy

Pumping up the heat pump

Propane-powered heat pumps could be greener—and easier to install in leaky old buildings

ELECTRICITY CAN be made from the sun, the wind or the atom rather than by burning fossil fuels. Cars, buses and perhaps even lorries can be powered by batteries rather than petrol or diesel. But other parts of the economy are trickier to decarbonise. One such awkward chunk is the heating, in homes and business, of air and water. In the EU, where much of this is done by burning oil or natural gas, commercial and residential heating accounts for about 12% of the bloc's greenhouse-gas emissions (see chart on next page).

In principle there is a solution, in the form of heat pumps. These work like a refrigerator in reverse, gathering heat from the outside, concentrating it, and piping it into a building. The EU hopes to replace a third of the 68m gas and 18m oil boilers in residential buildings with heat pumps by 2030. That could mean a 28% fall in the total residential emissions generated by oil and gas—and that number should rise as more of the electricity powering those pumps comes from low-carbon sources.

But there are problems with ambitious targets. Compared with boilers, heat pumps are expensive, often costing twice or three times as much as a fossil-fired boiler. Another is that, since they pump cooler water to radiators, they work best in new, well-insulated buildings. Around 60% of Europe's housing stock is estimated to fall short of the required standards, and will need extensive—and expensive—renovation work to make them suitable.

And there is another drawback, too. Although heat pumps powered by low-carbon electricity are undoubtedly better, from an environmental point of view, than fossil-fuelled boilers, their credentials are not entirely green. Most residential models contain environmentally damaging gases which European legislators are poised to outlaw. Redesigning the machines to work without them could mean delays in installing them.

In some places, the politics of heat pumps have become bad-tempered. A German law had planned to forbid the installation of new gas-fired boilers in homes from next year. A backlash from cross voters sparked a row in the country's coalition government before the rules were scrapped in June. On September 8th, after we published this article, German lawmakers were expected to pass a watered-down version of the rules.

Warming up

A heat pump works by warming a refrigerant in a network of pipes using the ambient heat present in the air, or from an array of pipes that are buried in the ground or under water. This turns the refrigerant from a liquid into a gas. The gas is then compressed, which raises its temperature. The resulting hot gas is pumped through a heat exchanger, where it warms the water or air that is used to heat the building. As the gas cools it returns to its liquid state, ready to repeat the process.

Because heat pumps merely move existing heat around, rather than generating it themselves, they can be extremely efficient. Some models boast efficiencies of 400% or more, which means that four kilowatts of heat can be piped into a house for every one kilowatt of electricity consumed ▸▸

by the pump. Modern gas boilers, which generate heat from combustion, can reach about 90% efficiency, and are prevented by the laws of physics from exceeding 100%.

A heat pump's efficiency is lower in winter, when there is less heat to be gathered from the air, although they work at temperatures as low as -25°C. But heat pumps tend to produce water heated to around 55°C. This is lower than most gas boilers, which might manage 75°C or so. That means that fitting heat pumps to older buildings often needs extra insulation, bigger radiators or even underfloor heating, all of which is disruptive and pricey.

Most modern heat pumps use hydrofluorocarbons (HFCs) as their refrigerants. These transform from liquid to gas at the right sort of temperature, and can carry a good deal of heat. But HFCs are also potent greenhouse gases, with climate-changing power that can be several thousand times higher than carbon dioxide, the main man-made greenhouse gas. Leaks of HFCs from heat pumps and other equipment, such as certain types of refrigeration and air-conditioning systems, account for around 2.5% of the EU's total greenhouse-gas emissions—not far off the amount caused by air travel in the region.

Propane, and propane accessories

With that in mind, the EU had planned this summer to put the finishing touches to new rules that would have required HFCs to be replaced with cleaner alternatives by 2027. But discussions have broken down. One side, backed by Germany and the Netherlands, is keen to get on with the phase-out. The other, supported by a number of eastern European countries and some heat-pump manufacturers, wants the deadline moved into the 2030s.

Other refrigerants exist. The chemical industry has developed a class of chemicals called hydrofluoroolefins (HFOs). These are less powerful greenhouse gases than HFCs, although still more potent than carbon dioxide. But some countries, including Denmark, Germany, the Netherlands, Norway and Sweden, want to restrict HFOs, too, because studies show they could pollute rainwater. Many heat-pump manufacturers are therefore turning to so-called natural refrigerants, which have the lowest global warming potentials of all. Some of these were employed in refrigeration long before synthetic substances were developed. They include ammonia and even carbon dioxide itself. But the front-runner to replace HFCs in residential heat pumps is propane.

The global-warming effect of propane is only a little stronger than that of carbon dioxide. The problem with using it in a heat pump is that, unlike HFCs, it is flammable. It is also odourless, which is why when propane is used as a fuel it is given a "rotten egg" smell so that it can be easily detected if it leaks. That is not possible in a heat pump, since the chemicals that produce the smell interfere with the refrigeration process.

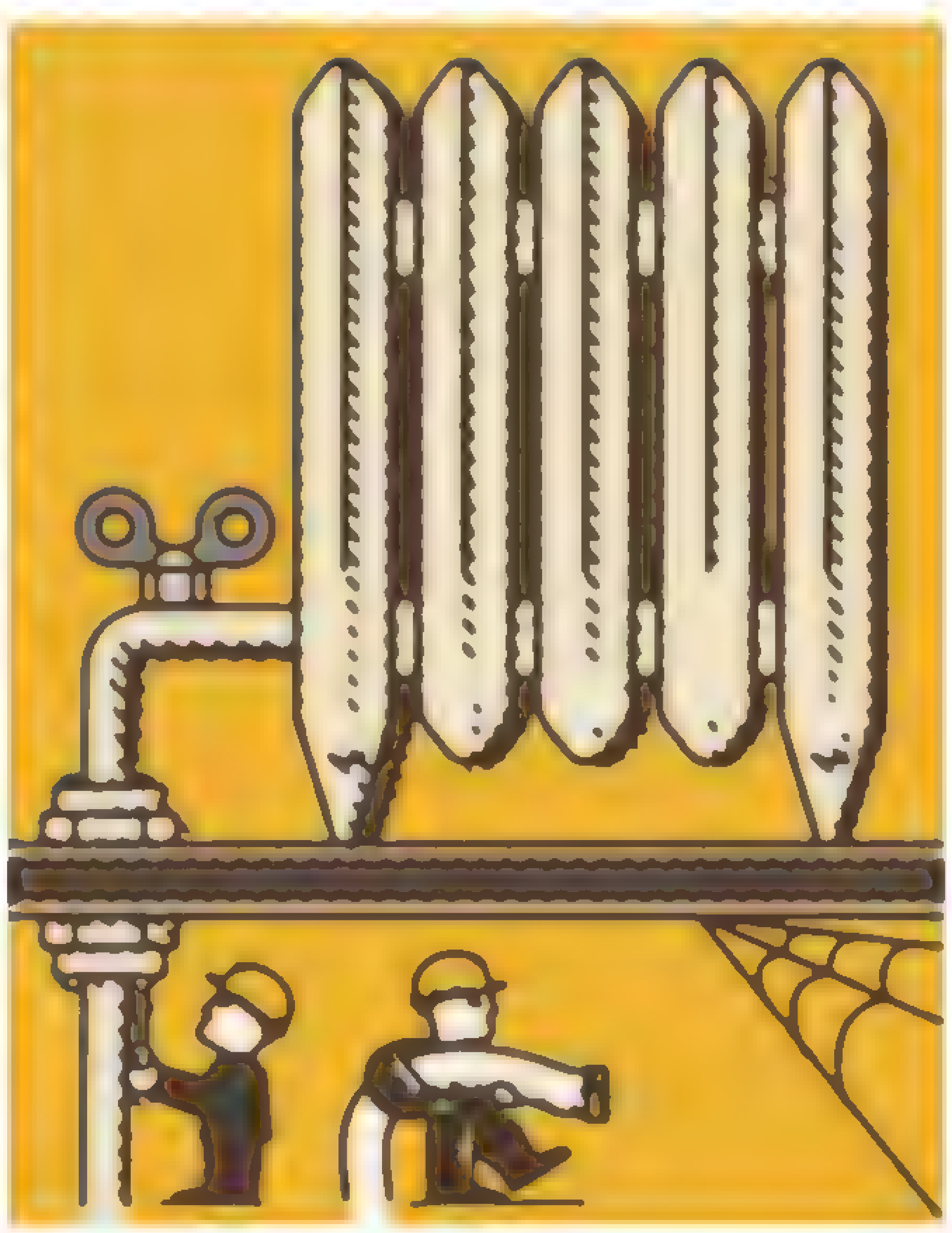
For that reason, extra rules apply to propane-powered pumps. If propane is pumped inside a building, as in "split systems" which mount the heat-exchanging equipment indoors, then the volume of gas in the system is limited to 150 grams, about a fifth of the amount of refrigerant typically used in an HFC model. If more gas is used, extra safety features, such as leak sensors and automatic venting systems, have to be fitted. This raises the cost still higher, and makes installation even more fiddly—especially in the older buildings less well-suited to the technology.

According to the European Heat Pump Association (although not all its members seem to agree), the rapid phasing out of HFCs would "slam on the brakes for heat pump deployment". It argues that a laxer schedule would give the industry more time to develop propane-based systems that could be installed more easily in a greater variety of homes.

Hot houses

European Union, distribution of greenhouse-gas emissions, 2021, % of total

Source: European Environment Agency



Delaying things is unnecessary, according to a paper presented to European legislators by a group of more than 40 scientists. They point out that it took the refrigerator industry between three and five years to switch to cleaner gases, like isobutane, in the 1990s. (Chlorofluorocarbons, that industry's refrigerants of choice, were phased out in that decade because of the damage they do to the ozone layer.) What heat-pump makers have failed to do, the paper argues, is to reduce the amount of refrigerants which heat pumps contain because this was not considered to be important with non-flammable HFCs.

Despite what their trade body says, a number of producers, including Viessman and Robert Bosch, two German firms, along with Mitsubishi Electric, a Japanese one, have already launched propane-filled heat-pumps. They tend to be large "monoblock" systems that are mounted outdoors, where any escaping gas can disperse quickly and harmlessly into the air. Viessman says that, besides its eco-friendly credentials, propane also makes it easier to produce heat pumps that can supply water at 70°C—the sorts of temperatures that gas boilers produce. That could remove the need to replace radiators or install underfloor heating in many cases, saving a considerable amount of money.

Many properties, and especially flats, may lack enough outside space for a monoblock. Firms are therefore working on split systems that can get by on modest quantities of propane. They are being helped by Lena Schnabel and her colleagues at the Fraunhofer Institute for Solar Energy Systems in Freiburg, Germany. Dr Schnabel's group have tested a number of designs, including one that can make do with just 146 grams of propane. That was achieved by redesigning and optimising most of the pump's important components, such as the compressor, heat-exchanger and pipework, and the use of prototype parts.

Dr Schnabel is optimistic that new designs containing a small charge of propane will, in the next few years, mean it is possible to directly replace a gas boiler inside a flat with a heat pump that will be safe, eco-friendly and produce similar temperatures. The heat source could be a communal one, on the roof of a building or buried in a basement, powering dozens of individual indoor units. There is even talk of raising the 150-gram limit, though, says Dr Schnabel, "for safety it really makes sense to use as little refrigerant as possible".

If such devices can be perfected, then many of the downsides of heat pumps could be eliminated. Not only would they become greener machines in their own right, they would become easier and cheaper to fit in old properties, too. And that would help take some of the heat out of the arguments that surround them. ■

Plant biology

The ears of corn

Plants do not have ears. But they can still detect sound—and sometimes produce it, too

IN 1986, WHEN he was a mere prince, King Charles, Britain's eco-minded monarch, told a television interviewer that it was important to talk to one's plants. He was widely mocked. But that piece of princely wisdom seems to have been ahead of its time, for there is now plenty of evidence that plants can detect sound, react to it, and even, perhaps, produce it.

Scientists have been experimenting with playing sounds to plants since at least the 1960s, during which time they have been exposed to everything from Beethoven to Michael Jackson. Over the years, evidence that this sort of thing can have an effect has been growing. One paper, published in 2018, claimed that an Asian shrub known as the telegraph plant grew substantially larger leaves when exposed to 56 days of Buddhist chants—but not if it was exposed to Western pop music, or silence. Another, published last year, found that marigolds and sage plants exposed to the noise of traffic from a busy motorway suffered stunted growth, and produced a range of stress compounds.

Other research, much of it done in China, reports that certain frequencies, played in acoustically controlled environments like greenhouses, can affect seed germination and even boost crop yields. And plants can make noises, too, albeit not deliberately. Earlier this year a group of researchers at Tel Aviv University published an article in *Cell Press*, reporting that several species of plants emitted different noises in response to different stresses—although not at the sorts of frequencies that humans can hear.

If all that sounds strange, perhaps it should not. After all, sound carries useful information about an organism's environment. From an evolutionary point of view, there is no reason to expect that information to be exploited only by animals.

I'm picking up bad vibrations

Plants have been evolving alongside the insects that pollinate them and eat them for hundreds of millions of years. With that in mind, Heidi Appel, a botanist now at the University of Houston, and Reginald Cocroft, an entomologist at the University of Missouri, wondered if plants might be sensitive to the sounds made by the animals with which they most often interact. The researchers recorded the vibrations made by certain species of caterpillar as they chewed on leaves. These vibrations are not powerful enough to produce sound waves in the air. But they are able to travel across leaves and branches, and even to neighbouring plants if their foliage touches.

The researchers then exposed Thale cress—the plant biologist's version of the laboratory mouse—to the recorded vibrations while no caterpillars were actually present. Later, they put real caterpillars on the plants to see if exposure had led them to prepare for an insect attack. The results were striking. Leaves that had been exposed had significantly higher levels of defensive chemicals like glucosinolates and anthocyanins, making them much harder for the caterpillars to eat. Leaves on control plants that had not been exposed to vibrations showed no such response. Other sorts of vibration—caused by the wind, for instance, or other insects that do not eat leaves—had no effect.

Dr Appel and Dr Cocroft published their findings in 2014. They have since been replicated many times in both cress and the tobacco plant, another common lab organism, and with a variety of caterpillars. While the vibrations created by different insects chewing on different leaves vary, the plants in question are consistently able to recognise them as a threat and defend themselves accordingly.

In 2019 the researchers took a closer look at what exactly was going on, biochemically speaking, with the plants exposed to the chewing sounds. Many of the chemicals released to cope with insect attacks turned out to be the same as those that are produced to better endure cold weather. Drs Appel and Cocroft propose that both situations activate similar signalling pathways associated with stress.

The research may have practical consequences, too. "Drones armed with speakers and the right audio files could warn crops to act when pests are detected but not yet widespread," says Dr Cocroft. Unlike chemical pesticides, sound waves leave no toxic residue. With the help of weather forecasts, the system could even be used to prepare crops for cold snaps.

If it makes evolutionary sense that some plants are able to eavesdrop on insects, then it would make just as much sense if others were able to "hear" a noisy resource that all plants rely upon: water. In 2017 Monica Gagliano, an ecologist at the University of Western Australia, published evidence suggesting that they can.

Dr Gagliano knew from previous work that plants' roots are sensitive to even minute amounts of water in soil, and will aggressively follow moisture gradients. But seeds seemed to be able to send roots to nearby water even when the soil in the immediate vicinity was dry. Dr Gagliano hypothesised that the roots might be detecting groundwater by sound, and tested her theory on pea plants.

The plants were grown in pots with forked bases, which could be filled with either dry or damp soil. As expected, roots proved very sensitive to the presence of moisture, and readily grew towards it. Then Dr Gagliano added a twist. Some forks were surrounded by plastic pipes full of water, creating watery noises but remaining inaccessible to the roots. When the alternative was a tube full of dry soil, those noises proved just as enticing to the growing roots as water itself.

Fascinated, Dr Gagliano and her colleagues placed small speakers at the bases ▸▸

of some tubes and played either a recorded sound of water, white noise, or nothing. Intriguingly, the plants seemed able to tell that they were being duped. Even when the alternative was parched soil, almost all chose to grow away from the speaker. They could only be persuaded to grow towards a speaker when forced to choose between two, in which case they chose the one playing watery noises. Dr Gagliano suspects—but cannot yet prove—that the small magnets found in the speakers are responsible for such discerning behaviour. A few older papers have suggested that plants can detect magnetic fields.

Still, the findings suggest that, in the absence of soil moisture, pea plants can detect the sound of water in pipes and follow it to its source. That too could prove to be valuable information. Plant roots are a big cause of damage to sewer systems all over the world. In Germany, the annual cost of root removal and associated pipe repair is around €28m ($30m). The assumption had been that it was leaks that attracted the roots. Dr Gagliano's results suggest that even watertight pipes might still come under attack. The solution, she says, might be to invest in pipes that are silent as water runs through them.

A cry for help

And while plants are able to detect sounds, some also produce them, albeit unintentionally. This was demonstrated in April by the team at Tel Aviv University. Lilach Hadany, the team's leader, knew that plants could sometimes be made to vibrate. This can happen when they do not have enough water. That causes air bubbles to form in the xylem, a specialised tissue that transports water from a plant's roots to its leaves. When those bubbles collapse, they transmit small shock waves into the surrounding tissues. Previous work had shown that those vibrations could be measured with devices stuck to the plants themselves. Dr Hadany wondered whether they might be audible from farther away.

So the researchers put tomato and tobacco plants inside a microphone-lined box. Half had been watered, while half had been left parched. The researchers repeated the experiment with another set of plants, half of which had their stems cut, and half of which were left undamaged.

The microphones picked up very little sound from healthy plants. But those lacking water, or which had been cut, made a fair bit of noise, albeit at frequencies too high for humans to hear. Different stresses produced different kinds of sound. When the recordings were fed to a machine-learning algorithm, it was able to tell the sounds emitted from thirsty plants from those from the damaged ones.

When the experiment was repeated in a noisy greenhouse, Dr Hadany found that microphones could still detect the sounds from 10cm away. Experiments on cacti, corn, grapevines and wheat produced similar results, as did tomato plants suffering from an infection of mosaic virus, a common pathogen that can damage yields.

Farmers monitor the health of their crops by eye. (Mosaic virus, for instance, is so named because of the mottled pattern produced on the leaves of suffering plants.) That can be hard to do properly over an entire field. But if plants are broadcasting auditory indicators of distress, then wiring a field with microphones might help farmers keep an ear out for trouble.

That plants live in a world full of sound is no longer in doubt. But plenty of questions remain. One is the effect of human civilisation. It is well known that the din of city life makes bird calls harder to hear, forcing the animals to sing more loudly. Since trickling water, hungry caterpillars and suffering plants are all very quiet, it seems worth investigating whether plants face similar problems. Researchers might even apply to King Charles for funding. ■

What the leaves know

Swabbing plants for DNA is enough to track animals in a rainforest

BIOLOGICAL FIELDWORK can mean trips to exotic places. But the work itself can be tedious, especially when you are trying to track down elusive subjects. The most common method is to send a few eager graduate students armed with camera traps and several weeks of spare time. But perhaps not for much longer. A paper published in *Current Biology*, whose lead authors are Christina Lynggaard at the University of Copenhagen and Jan Gogarten at the Helmholtz Institute for One Health in Germany, suggests an easier method: simply swabbing nearby leaves for DNA.

The DNA in question is called "environmental DNA" (eDNA for short). It refers to all the genetic information that animals shed as they go about their daily business: breathing, urinating, moving around, or interacting with their environment in any way. In recent years gene-sequencing technology has become quick and sensitive enough to pick out genetic sequences from particular animals—including humans—from this ubiquitous eDNA.

One way of doing so is simply to blow air through filters, then analyse them to see which critters live in the vicinity. Aware of that technique, Drs Gogarten and Lynggaard wondered if there might be a simpler approach. Air-sampling systems can take days to do their work. Maintenance must be done, and filters must be changed. But given that eDNA is literally blowing around ecosystems, the researchers wondered if it might be collecting on leaves.

The leaves of many plants are waxy and somewhat sticky. The researchers theorised that eDNA might end up stuck to leaves and that it could subsequently be collected by swabbing them. They tested their theory in the dense rainforests of Kibale National Park, in Uganda. Using simple cotton swabs, and wearing masks and gloves to prevent contaminating the samples with their own DNA, they visited three areas of the park and collected eight swabs at each site, then took them back to Copenhagen for analysis.

The swabs revealed the presence of 26 birds, 24 mammals, one amphibian and one fish, with each swab containing DNA from eight animals on average. More than half the samples were good enough to work out the precise species they came from. The smallest (weighing just 19 grams) was the reclusive Stella wood mouse. The largest was the 3.8-tonne African elephant. The fish turned out to be a catfish that the researchers suspect was eaten by a bird, which then defecated some fishy DNA onto the leaves.

Swabbing for animals, then, seems to work. Moreover it is cheap, easy and fast. Graduate students will have to be content spending less time specimen-hunting in far-flung parts of the world.

Country music

From honky-tonk to TikTok

Why country music is dominating American charts

THE FIRST songs branded "country" were recorded in Atlanta and sold in 1923. In the century since, Americans have danced and sung to country music with gusto, often sporting stetsons and boots. But today the genre is breaking new records. In August three country songs claimed the top slots on the *Billboard* Hot 100, America's singles chart. It is the first time that a trifecta of country songs has reigned since the chart was launched 65 years ago.

Around 150m Americans (45% of them) listen to country music at least once a month. That is more than triple the number that tune in to an hour or more of Fox News, America's most-watched cable network. A whopping 36% of the streams of Spotify's top 50 songs in America have been country songs in 2023; in 2016, it was just 2%. Today the genre is even more popular in America than hip-hop and R&B, according to a recent poll conducted for *The Economist* by YouGov. Though it has yet to outpace pop, country music is finding legions of new listeners, as Nashville's cowboy crooners reinvent country's sound and young urbanites take to it.

Morgan Wallen is the biggest star many people have never heard of. A millennial, he pipes about lost love and east Tennessee. His latest record dominated the *Billboard* 200 albums chart for 12 consecutive weeks—the longest reign for an album in 25 years (when the "Titanic" soundtrack floated across airwaves). His tune "Last Night" crowned the singles chart longer than any other country song in history.

Mr Wallen is both an embodiment of country's broader appeal and a driver of it. Country-music streams in America rose by more than 20% in the first half of 2023 compared with the previous year; Mr Wallen propelled 40% of that growth, according to Luminate, an analytics firm.

Youthful punters are packing stadiums to catch the heartthrob on his first international tour. Country listeners tend to be older, conservative Americans, sometimes living in places where wealth is measured in cattle. Yet around a third of Mr Wallen's fans are women aged 18 to 24, according to Chartmetric, a music-data firm. He is more popular among urbanites than rural Americans, with his biggest audiences in cities like Minneapolis and Chicago. In Boston he filled Fenway Park, a venue that seats 38,000 people, three nights in a row.

Digital natives outside America are discovering country's twangy ballads too. Views of TikTok videos tagged #CountryMusic have risen by 67% in Britain in 2023. In the first six months of the year, the Philippines notched up more than 600m country-music streams, according to Luminate. Record labels are cottoning on: one plans to spend a fifth of its country-music marketing budget to attract new listeners in Australia, Canada, Germany and Sweden.

Country has been through evolutions before, even as it holds tight to tradition. Its roots go back to enslaved Africans, who played banjos on southern plantations. European and British immigrants played folk music on the fiddle. The sounds eventually merged, spawning country music. The genre was popularised by the Grand Ole Opry, a live-radio show that grew into a ▸▸

→ Also in this section

country-music mecca in Nashville.

The cheerful reception of country in non-southern cities may seem odd, given the genre's reputation for conservatism. But many artists, like Mr Wallen, try to stay clear of politics. (After using a racial slur in 2021, he was briefly boycotted.) For a smaller group, politics explains their rise. Oliver Anthony, who recently had the top single with "Rich Men North of Richmond", shot to fame after conservatives promoted his hillbilly elegy (although Mr Anthony claims to be a centrist). But many younger fans are either ignorant of the genre's politics or say they do not care.

So what explains country's broader appeal? One factor is the tone of country songs, which is piquing listeners' interest. Today's country musicians are modest and sympathetic; young artists like Mr Wallen, as well as fellow stars like Zach Bryan and Luke Combs, talk more about sobriety than binge-drinking. Mr Wallen paints himself as a simple man chasing big dreams. He serenades his mother and seems surprised by his success. Nashville insiders say the singer still looks startled when bachelorettes swarm him at bars. Mr Anthony of "Rich Men" fame is also down-to-earth; music videos showcase him strumming his guitar alongside his dogs.

Country's appeal in urban settings can also be explained by listeners' hunger for escapism. For city folk stuck in matchbox apartments, the tunes represent bucolic freedom without the inconveniences of rural living (slower Wi-Fi, no food-delivery apps). Country "expresses everything about a Friday night", insists one city-dwelling 21-year-old; listening to it "you forget about all the politics and your daily activities". TikTokkers now set videos of proms and weddings to country anthems; the mood suits America's holiday weekends (including Labour Day on September 4th), when streams peak.

The genre is sounding less like hillbilly blues and more like pop, which also broadens its allure. This may be the influence of Taylor Swift, who was considered a country singer until she shook it off in 2014 and launched a pop career. A chattering hi-hat often heard in trap (a subgenre of rap) kicks through some of Mr Wallen's tracks; "Last Night" shares hip-hop's syncopated cadence. Country-music purists may sniff at these hybrid tracks, but they work: the new songs are "earworms", says one fan.

Despite his fame in some circles, only a third of Americans know who Mr Wallen is. This is due to streaming; with so much music available, fewer artists become universally known. But if the Tennessean troubadour can sustain his spell at the top, the self-proclaimed "redneck" who was "born with a beer" in his hand will become an even bigger global sensation, bringing the whole genre along with him. ■

Vaccines

The long shot

A fascinating history of vaccines' spread, from smallpox to covid-19

Foreign Bodies. By Simon Schama. *Ecco; 480 pages; $32.99. Simon & Schuster; £30*

THE FIRST recorded vaccine—for smallpox—was administered by Edward Jenner, an English doctor, in 1796 to an eight-year-old boy, James Phipps. Jenner (pictured) took fluid from the lesions of a dairymaid who had become infected with cowpox and used it to inoculate Phipps against cowpox and smallpox.

That people could become immune to diseases after being exposed to them had been known for more than a thousand years before Jenner carried out his experiments. But the idea that people could be purposely infected as a way to ward off future illness, though ancient, took a surprisingly long time to spread and become accepted around the world.

In "Foreign Bodies", Simon Schama, a British historian, lays out a sweeping social history of inoculation, a range of methods used to protect people against disease that would eventually include vaccination. In tracing the transmission of this idea, Mr Schama's gaze moves from China to colonial Europe. He highlights forgotten characters, including a Greek woman who was one of the earliest and most prolific public-health servants, inoculating more than 4,000 patients herself and causing no ill effects. Along the way, readers meet vaccination's most regular travelling companion—distrust.

Mr Schama opens his book with the story of François-Marie Arouet, the French philosopher and writer better known as Voltaire, who suffered from smallpox in 1723. As he burned with fever, he drank 200 pints of lemonade in the hope of "encouraging the coursing of foreign matter towards evacuation through the broken surface of the skin." He also performed bleeds and several emetic purges. "The wonder is that Voltaire survived," Mr Schama writes.

While Voltaire suffered in France, the authorities in China had already made inoculation against smallpox a state policy. The preferred way to create a mild infection there was insufflation: blowing dried pus into the noses of children and adults (which works). Inoculation could also be carried out by scratching the skin with a needle and introducing pus into the resulting wound. The nobility of Europe, however, were suspicious, believing that the Orient was "hopelessly mired in decadence and superstition".

Suspicions continued to be directed at later vaccinators, too. Waldemar Haffkine, a Russian bacteriologist working in India from 1893 to 1915, emerges as a heroic and hitherto uncelebrated figure in the history of public health. Haffkine created and administered a range of vaccines against everything from cholera to the bubonic plague. He first tested them on himself in order to build up trust with those he intended to vaccinate later.

Nevertheless, it was a battle to persuade ▸▸

The shot heard round the world

government officials to fund the mass-vaccination campaign that Haffkine thought was needed to protect the population from devastating disease outbreaks. He was also unpopular among the elite, with Lord Curzon, viceroy of India, blaming him for the deaths of Punjabi villagers during a vaccination campaign. Lord Curzon subsequently called for Haffkine to be hanged; the microbiologist was not killed, but his career was over.

Today paranoia about vaccines and vaccinators is experiencing yet another outbreak. Anthony Fauci, who formerly served during the covid-19 pandemic as America's vaccinator-in-chief and as director of the National Institute of Allergy and Infectious Diseases, has become a hate figure for many Americans.

Modern suspicions verge on the "feverish", Mr Schama writes. Conspiracy theorists froth that vaccinators want to puncture people's skin to pump in tiny microchips, so that Bill Gates, a tech billionaire, can track them. (Why he would want to is unclear.) Some anti-vaxxers simply reject science; others object to making jabs mandatory. Both tendencies have spawned rallying cries for populist politicians. For example, Ron DeSantis, the governor of Florida and a candidate for the Republican nomination for president in 2024, has railed against businesses forcing people to get vaccinated and warns darkly of a "bio-medical security state".

Mr Schama sees the history of vaccines as constantly pulled between medical advances and backlash from a sceptical public: "Hard-earned, exhaustively tested truth…always seems on the verge of overtaking error, when its exhilarating progress is sandbagged by indignation." ■

Back Story The art of dying

Lots of people mourn when famous writers and musicians die. Why?

AFTER ALEXANDER PUSHKIN was shot in a duel in 1837, crowds of mourners formed in St Petersburg. Russia's nervy authorities moved his funeral service and mustered 60,000 troops. When the wagon bearing the poet's body reached Pskov province, where he was to be interred, devotees tried to unharness the horses and pull it themselves.

The death of Rudolph Valentino, a silent-movie idol, in 1926 set off similarly fervid lamentation. Mounted police restrained the fans who mobbed the funeral parlour in New York where he lay on view (several reportedly killed themselves). In 1975 some of the millions of Egyptians who paid their respects to Um Kalthoum, a megastar singer, took hold of her coffin and shouldered it for hours through the streets of Cairo.

Today's celebrity obsequies tend to be less fanatical, and largely digital rather than in-person. But they are passionate all the same. In the past few months, grief has coursed around the internet for Martin Amis, Cormac McCarthy, Tina Turner and, most recently, Jimmy Buffett. If you stop to think about it, many such outpourings for writers, actors and musicians are odd, even irrational.

Unlike other kinds of grief, this one does not stem from personal intimacy. If you ever interacted with a cherished author, it was probably during a book tour when, caffeinated to the eyeballs, she signed your copy of her novel and misspelled your name. Maybe you delude yourself that you once locked eyes with a frontman hero during a gig and that he smiled only for you. But you didn't really know them, and they certainly didn't know you.

Nor would you always have liked them if you had. Their books or songs may be touching and wise, but (in the

parlance of criticism) it is a biographical fallacy to assume that the work reflects an artist's life or beliefs. Your favourites may indeed have been lovely people; or perhaps, beneath their curated images, they were spiky money-grubbers, consumed by rivalry or solipsists who drove their families nuts. Rarely do you know for sure.

Though the artists are gone, meanwhile, the art you prize is not. Death does not delete it—on the contrary, curiosity and nostalgia often drive up sales. (David Bowie's only number-one album in America was "Blackstar", released days before he died in 2016.) The dead, it is true, write no more books and record no songs. Philip Roth will never set a novel in the era of Donald Trump; you will never hear another operatic Meat Loaf ballad. The cold reality, however, is that many artists' best work was done long before their demise.

The sorrow makes more sense when a star dies young or violently. Had she not perished at 27, like Jimi Hendrix and Janis Joplin, who knows what music Amy Winehouse would have added to her small, exquisite oeuvre? Sinéad O'Connor, another casualty of 2023, lived a troubled life that ended too soon. Buddy Holly (killed in a plane crash), Amedeo Modigliani (dead of tubercular meningitis at 35), Wilfred Owen (slain in action a week before the armistice in 1918): such premature and cruel exits are tragic.

Objectively, though, the death of a long-lived and fulfilled artist is far from the saddest item in an average day's headlines. And whereas most mortals sink into oblivion, laureates live on in their output, which Horace, a Roman poet, called a "monument more lasting than bronze". The standard reasons for mourning don't apply. Why, then, are these losses felt so widely and keenly?

One interpretation is that the departed celebrities are merely the messengers. The real news is death itself, which comes for everyone, immortal or impervious as some may seem. If the reaper calls for Prince, with all his talent and verve, he will certainly knock for you. As Jim Morrison sang before he, too, died at 27: "No one here gets out alive."

Part of your past—the years in which the mute musician was the soundtrack, the silenced writer your ally—can seem to fade away with them. Just as plausibly, the grief can be seen as a transmuted form of gratitude for the solidarity and joy they supplied. On your behalf, they undertook to make sense of the world and distil beauty from the muck of life.

Yet as much as anything else, the passing of an artist is an occasion for communion. In an atomised age, in which the default tone is abrasive, a beloved figure's death is a chance to share benign feelings and memories with fellow admirers. Like water-cooler moments in a cemetery, these sombre holidays from spite and strife are the artists' parting gifts.

New fiction

A novelist's novelty

The Fraud. By Zadie Smith. *Penguin Press; 464 pages; $29. Hamish Hamilton; £20*

ZADIE SMITH, who has just written a historical novel, never planned to. She saw the genre as "by nature a conservative form", guided by nostalgia for a time rather unlike the multicultural world of her life and books.

When she burst onto the scene at 24 with "White Teeth", her bestselling debut published in 2000, Ms Smith earned comparisons to Charles Dickens; she cluttered a multigenerational epic about immigrants in London with wry details and antic plot twists. As she has morphed from wunderkind into literary luminary, she has experimented widely with styles and forms, nodding to E.M. Forster in "On Beauty" and to Virginia Woolf in "NW".

Given her catholic taste in fiction, perhaps it was only a matter of time before she would write a historical novel after all. Her sixth novel, "The Fraud", is based on a real court battle in 1873, in which a seemingly uneducated butcher from east London claimed to be Sir Roger Tichborne, the presumed-drowned heir to a grand estate. Ms Smith was fascinated by how this butcher's claim became a *cause célèbre*, with masses of Britons rooting for a self-declared aristocrat as if he was one of their own.

Like most novels about the past, this one comments on the present. In short, pacey chapters, Ms Smith uses the trials—which lasted years, making them among the longest in Britain's history—to interrogate the odd populist appeal of elite men like Donald Trump and Boris Johnson, born into privilege yet praised for speaking for the common man. "Everywhere he speaks there's huge crowds, full of those what are despised like him, and forgotten like him", says an illiterate former maid of the man pretending to be Sir Roger. "He's for us, and we're for him."

Smith, looking forward—and to the past

Ms Smith broadens the story to touch on her usual themes of race, class, identity and things that people cannot escape, like their bodies and circumstances. The reader's witness for the legal saga is the sharp-eyed Eliza Touchet, who became a widow in her 20s. Curious, sceptical and jaundiced, Touchet is shocked by the rowdy support for the man purporting to be Sir Roger—"So obviously out of his depth, caught in an ever-widening lie"—but riveted by the quiet dignity of Andrew Bogle, a former Jamaican slave and Tichborne servant, who testifies on Tichborne's behalf.

"The Fraud" leaps from stuffy English parlours to Jamaican sugar plantations, where African slaves lost their names, their loves and often their lives while toiling for the British. The effect is potent, as Ms Smith—a child of a white father and Jamaican mother—considers a worse fraud than a butcher's claim to wealth. Beneath the sweetened tea of polite society was a hellscape of inhumanity.

Ms Smith admits that much of her career has involved injecting mixed-race people like herself into the novels she grew up with: "The older I get, the Freudian part of it is very clear to me, going through the canon and inserting myself," she says. With "The Fraud", she reveals the slavery stories that roiled unseen beneath the classic English novels of Jane Austen, Thomas Hardy and others. In other words, Ms Smith uses fiction to examine the fictions people tell themselves about history, including glossing over past misdeeds.

"So much of life is delusion," Touchet observes. Her concerns about the gifts and thefts of time feel like the observations of a female writer in middle age. Her fascinating contradictions—Touchet is at once self-aware and oblivious, right-minded and hypocritical—make her a fine guide for exploring the mysteries that lurk between people, within nations and within the self. ■

Pontificating pontiffs

City of Echoes. By Jessica Wärnberg. *Pegasus Books; 448 pages; $32. Icon; £25*

THE PAPACY is one of the world's longest-running institutions. It may also be one of the strangest. There have been rival popes, an English pope and even, legend has it, a female pope.

Many books have been written about the papacy. Jessica Wärnberg's does not try to cover all the 266 men who have been chosen by conclaves of cardinals. It barely touches on the corrupt Borgia popes, for instance, or the Medici pope who vowed that, God having given him the papacy, he would enjoy it (as many have done). But the book's strength is its range, from St Peter in the first century all the way to Pope Francis today.

Ms Wärnberg is especially good on the early years, when Christianity and the papacy emerged under the shadow of a hostile imperial Rome. Her chronology can be confusing, and she makes a few slips (Julius Caesar was never an emperor, for example). Yet the story of how popes became leading actors is well told.

The papacy has long had tricky relations with temporal authorities, such as Holy Roman Emperors and European monarchs. French kings, in particular, clashed repeatedly with pontiffs, leading to the papacy's exile to Avignon during the medieval era. As French emperor, Napoleon struggled against the papacy. But it was the arrival of Martin Luther and the spread of Protestantism across northern Europe in the 16th century that did most to undermine papal authority.

Two big themes stand out from the book. The first is the reactionary instincts of the institution and its occupants. Popes have generally backed those in power against reformers or liberals. In the 19th century, Pope Gregory XVI banned railways ("highways to hell") and even streetlights in his territories.

Second is the link to Rome and the Italian government based there. Rome often seems ungovernable, and the papacy is one reason. Most ordinary Italians are no longer in thrall to their church, yet its hold on the political class remains palpable. The latest evidence of this is the conservative social policy of Italy's current prime minister, Giorgia Meloni, who opposes gay marriage and abortion. Even under Francis, who is socially liberal by historical standards, the papacy's political influence persists.

Comedy in South Africa

Laugh, the beloved country

CAPE TOWN

Trevor Noah's new tour shows how much South Africa needs stand-up comedy

THERE IS PLENTY to cry about in South Africa. The country has the third-highest murder rate and the highest unemployment rate in the world. Graft has corroded the shine of the ruling African National Congress. Nearly three decades on from April 1994, when millions queued to elect Nelson Mandela, most people will probably stay at home when the country votes in next year's general election.

In spite—and often because—of the woes, there is plenty to laugh about, too. And few comedians make South Africans chortle more than Trevor Noah (pictured), whose career began in the clubs of his home town, Johannesburg, before he became the host of "The Daily Show", an American television programme.

On August 30th Mr Noah began a 12-show tour of South Africa. (Afterwards he will travel to India, the United Arab Emirates, America and Britain, finishing in March next year.) He symbolises the role comedians can play in South Africa, a country of many nations—merchants of mirth, but also translators across divides.

Under apartheid, comedy, like all culture, was subject to heavy regulation. Long opposed by the government, television was not introduced until 1976. When it finally came, whites were fed milquetoast fare. Comedians who tried to slip in unscripted jokes were kept off-air for years. State-sponsored "African" shows depicted the supposedly wacky ways of "tribal" life to emphasise blacks' otherness.

In its dying days apartheid was satirised by a few white stand-ups. One of them, Casper de Vries, says he "wanted to rebel against my conservative culture", which made him the target of an assassination plot by far-right extremists. But after the end of apartheid in 1994, opportunities for black stars and the exuberance of the democratic era created a culture where all comedians were "trying to find a common understanding", says Mr de Vries.

Mr Noah has argued that comedy contributed to catharsis; it was much easier to break taboos while laughing at them. Black comedians frequently mock their audiences. "Do white people know where Gugulethu is?" asked Loyisa Gola, a popular comic, in one of his routines, referring to the poor part of Cape Town where he grew up. "Well, you should know, you put us there, motherfuckers."

Comedy is a way for different people to understand each other, says Ndumiso Lindi, another comedian. "Comedians bring out things that other people don't see," he adds. It helps that South Africans can laugh at themselves. His skit about the reaction of white suburbanites to the arrival of an upwardly mobile black family—and their cows—mocks both the curtain-twitching of whites and stereotypes of his ethnic group, Xhosas.

Mr Noah is perhaps the ultimate comic interpreter. The son of a Xhosa mother and a Swiss father, he was "Born a Crime", as declared by the title of his bestselling memoir, published in 2016. Not quite black, not quite white and not quite "Coloured"—a term South Africans use to describe mixed-race people whose primary language is Afrikaans—he grew up something of an outsider. Languages helped him survive: he speaks seven of South Africa's 12 official languages, as well as German.

Mr Noah also entered the industry when there was little alternative to shows in English. Today the rise of "vernacular" comedy reflects the growth of a non-white middle class, eager for shows in their mother tongues. Many of the most popular comedians in South Africa mix "vernac" and English shows, a blend they say hones their craft. Virgil Prins, who speaks English, Afrikaans and Xhosa, notes that whites are impatient for punchlines; black audiences enjoy the journey as much as the destination. "The way white people receive humour and express humour is very different to how the black or vernac audiences do," he argues.

Vernac can involve stereotyping. This is not unlike that common gag in Britain that begins, "An Englishman, an Irishman and Scotsman walk into a bar." Instead, in the South African version, it is a Pedi, a Zulu and a Xhosa walking into a shebeen, or a speakeasy. According to Mashabala Galane, a pioneer of vernac, Pedis are frequently mocked for being mummy's boys, Zulus for their aggressiveness and Xhosas for their pretensions.

Yet vernac shows help comedians confront taboos beyond race and take aim at many sensitive subjects. These include sex—"which we don't normally talk about as black people", says Mr Galane—as well as traditional medicine and polygamy, still practised by some Zulus. (A bonus is more material for mother-in-law jokes.)

Mr Noah has said that satire is important in a country where politics is one of the few shared experiences. But "vernac comedians don't normally touch politics," says Mr Galane: "People come to comedy to escape politics." This means that one consequence of the growth of vernac may be that South African comedy loses some of its political potency.

That hints at a broader apathy after almost 30 years of unmet expectations. Or perhaps it is just hard to satirise public life when so many South African politicians are unwitting comedians. Cyril Ramaphosa, the president, nearly resigned last year in a scandal involving $580,000 in cash stuffed in a sofa from the sale of buffaloes.

The state of the economy does not make it easy for comedians to follow in Mr Noah's footsteps either. For most South Africans, shelling out the equivalent of $50 for a comedy ticket would be an absurd luxury. Covid led to the closure of the last comedy club still standing in Cape Town. To make an income, many comics take corporate gigs, playing at firms' bashes. According to Mr Lindi, "They come with rules, like no race jokes. But how do you avoid race issues in a country like ours?" ■

Courses

Economic & financial indicators

Economic data

	Gross domestic product % change on year ago latest		quarter*	2023†	Consumer prices % change on year ago latest		2023†	Unemployment rate %		Current-account balance % of GDP, 2023†	Budget balance % of GDP, 2023†	Interest rates 10-yr gov't bonds latest,%	change on year ago, bp	Currency units per $ Sep 6th	% change on year ago
United States	2.5	Q2	2.1	1.8	3.2	Jul	3.9	3.8	Aug	-2.9	-5.9	4.3	97.0	-	-
China	6.3	Q2	3.2	5.2	-0.3	Jul	0.8	5.3	Jul‡§	1.8	-3.2	2.5 §§	10.0	7.31	-4.9
Japan	2.0	Q2	6.0	2.0	3.3	Jul	2.9	2.7	Jul	3.0	-5.2	0.7	41.0	148	-3.3
Britain	0.4	Q2	0.8	0.3	6.8	Jul	6.7	4.2	May††	-3.3	-4.3	4.5	145	0.80	8.8
Canada	1.1	Q2	-0.2	1.7	3.3	Jul	3.4	5.5	Jul	-0.6	-0.9	3.7	49.0	1.37	-4.4
Euro area	0.6	Q2	1.0	0.9	5.3	Aug	5.4	6.4	Jul	2.0	-3.3	2.7	104	0.93	8.6
Austria	-1.1	Q2	-2.7‡	0.3	7.7	Aug	7.8	5.6	Jul	2.3	-2.4	3.2	99.0	0.93	8.6
Belgium	0.9	Q2	0.6	0.9	2.4	Aug	3.2	5.5	Jul	-2.8	-4.7	3.3	105	0.93	8.6
France	1.0	Q2	2.1	0.8	5.7	Aug	5.7	7.4	Jul	-1.1	-5.0	3.1	95.0	0.93	8.6
Germany	-0.1	Q2	0.1	-0.3	6.4	Aug	6.0	2.9	Jul	5.8	-2.2	2.7	104	0.93	8.6
Greece	2.9	Q2	5.1	2.4	3.5	Jul	3.8	10.8	Jul	-5.9	-1.8	4.1	-15.0	0.93	8.6
Italy	0.4	Q2	-1.6	1.0	5.5	Aug	6.3	7.6	Jul	0.9	-4.8	4.4	45.0	0.93	8.6
Netherlands	-0.3	Q2	-1.3	0.9	3.4	Aug	5.3	3.6	Jul	7.5	-2.3	3.0	106	0.93	8.6
Spain	1.8	Q2	1.7	2.3	2.4	Aug	3.1	11.6	Jul	1.8	-4.1	3.6	84.0	0.93	8.6
Czech Republic	-1.0	Q2	0.6	0.2	8.8	Jul	10.5	2.8	Jul‡	-1.2	-4.5	4.5	-37.0	22.7	9.5
Denmark	1.2	Q2	1.3	2.0	3.1	Jul	4.0	2.8	Jul	10.5	1.5	2.9	88.0	6.96	7.9
Norway	0.7	Q2	0.1	1.6	5.4	Jul	4.8	3.3	Jun‡‡	17.6	12.5	1.4	76.0	10.7	-6.9
Poland	-0.6	Q2	-8.5	1.3	10.1	Aug	11.9	5.0	Jul§	-0.2	-4.8	5.6	-63.0	4.27	11.7
Russia	4.9	Q2	na	-0.5	4.3	Jul	6.5	3.0	Jul§	1.8	-3.8	11.5	256	98.2	-37.4
Sweden	-0.8	Q2	-3.3	-0.2	9.3	Jul	7.0	6.2	Jul§	4.2	-0.3	2.8	87.0	11.1	-3.0
Switzerland	0.5	Q2	0.1	1.1	1.6	Aug	2.2	2.1	Jul	6.6	-0.7	1.0	12.0	0.89	10.1
Turkey	3.8	Q2	14.6	3.2	58.9	Aug	46.3	9.0	Jun§	-5.0	-4.9	18.2	563	26.8	-32.1
Australia	2.1	Q2	1.4	1.6	6.0	Q2	5.6	3.7	Jul	1.7	0.3	4.1	47.0	1.57	-5.7
Hong Kong	1.5	Q2	-5.2	3.5	1.8	Jul	1.9	2.8	Jul‡‡	9.1	-1.5	4.0	82.0	7.84	0.1
India	7.8	Q2	11.0	6.2	7.4	Jul	5.5	8.1	Apr	-1.3	-5.9	7.2	3.0	83.2	-4.0
Indonesia	5.2	Q2	na	5.0	3.3	Aug	3.8	5.5	Q1§	0.7	-2.6	6.5	-63.0	15,292	-2.6
Malaysia	2.9	Q2	na	4.0	2.0	Jul	2.5	3.4	Jun§	1.7	-5.0	3.9	-14.0	4.67	-3.6
Pakistan	1.7	2023**	na	1.7	27.4	Aug	32.2	6.3	2021	-1.7	-7.7	16.5 †††	386	307	-28.1
Philippines	4.3	Q2	-3.6	4.2	5.3	Aug	5.5	4.5	Q2§	-5.7	-7.0	6.5	-6.0	56.9	0.1
Singapore	0.5	Q2	0.3	1.0	4.1	Jul	4.3	1.9	Q2	18.8	-0.7	3.2	10.0	1.36	3.7
South Korea	0.9	Q2	2.5	1.3	3.4	Aug	3.0	2.7	Jul§	1.7	-2.7	3.9	17.0	1,331	3.1
Taiwan	1.4	Q2	5.6	0.8	2.5	Aug	2.0	3.4	Jul	13.2	-0.4	1.2	-12.0	32.0	-3.7
Thailand	1.8	Q2	0.7	2.8	0.9	Aug	1.5	1.2	Jul§	1.1	-2.7	2.8	-3.0	35.5	2.8
Argentina	1.3	Q1	2.7	-2.8	113	Jul	129.9	6.9	Q1§	-2.8	-4.2	na	na	350	-59.8
Brazil	3.4	Q2	3.7	2.4	4.0	Jul	4.5	7.9	Jul§‡‡	-1.9	-7.6	11.4	-63.0	4.97	5.2
Chile	-1.1	Q2	-1.2	0.1	6.5	Jul	7.5	8.8	Jul§‡‡	-3.6	-1.9	5.8	-81.0	874	1.9
Colombia	0.3	Q2	-4.1	1.6	11.8	Jul	11.5	9.6	Jul§	-4.0	-4.2	10.8	-159	4,097	9.3
Mexico	3.6	Q2	3.4	2.4	4.8	Jul	5.3	2.9	Jul	-1.8	-3.4	9.5	41.0	17.6	14.5
Peru	-0.5	Q2	1.5	1.3	5.6	Aug	6.5	6.7	Jul§	-1.3	-2.0	6.9	-126	3.70	4.9
Egypt	3.9	Q1	na	3.8	36.4	Jul	36.2	7.0	Q2§	-1.5	-6.9	na	na	30.9	-37.7
Israel	3.3	Q2	3.0	3.0	3.3	Jul	4.1	3.4	Jul	4.8	-2.0	3.9	90.0	3.83	-10.7
Saudi Arabia	8.7	2022	na	0.5	2.3	Jul	2.2	5.1	Q1	3.2	0.2	na	na	3.75	0.3
South Africa	1.6	Q2	2.4	0.5	4.8	Jul	5.7	32.6	Q2§	-1.8	-5.7	10.4	-11.0	19.2	-10.3

Source: Haver Analytics. *% change on previous quarter, annual rate. †The Economist Intelligence Unit estimate/forecast. §Not seasonally adjusted. ‡New series. **Year ending June. ††Latest 3 months. ‡‡3-month moving average. §§5-year yield. †††Dollar-denominated bonds. Note: Euro area consumer prices are harmonised

Markets

In local currency	Index Sep 6th	% change on: one week	Dec 30th 2022
United States S&P 500	4,465.5	-1.1	16.3
United States NAScomp	13,872.5	-1.0	32.5
China Shanghai Comp	3,158.1	0.7	2.2
China Shenzhen Comp	1,971.6	0.6	-0.2
Japan Nikkei 225	33,241.0	2.8	27.4
Japan Topix	2,392.5	3.4	26.5
Britain FTSE 100	7,426.1	-0.6	-0.3
Canada S&P TSX	20,227.0	-0.5	4.3
Euro area EURO STOXX 50	4,238.3	-1.8	11.7
France CAC 40	7,194.1	-2.3	11.1
Germany DAX*	15,741.4	-0.9	13.1
Italy FTSE/MIB	28,211.5	-2.4	19.0
Netherlands AEX	745.4	nil	8.2
Spain IBEX 35	9,314.4	-2.5	13.2
Poland WIG	66,747.1	-3.2	16.2
Russia RTS, $ terms	1,038.6	-1.3	7.0
Switzerland SMI	10,924.4	-1.5	1.8
Turkey BIST	8,181.7	3.5	48.5
Australia All Ord.	7,461.6	-0.6	3.3
Hong Kong Hang Seng	18,450.0	-0.2	-6.7
India BSE	65,880.5	1.2	8.3
Indonesia IDX	6,996.0	0.4	2.1
Malaysia KLSE	1,460.6	0.6	-2.3

	index Sep 6th	% change on: one week	Dec 30th 2022
Pakistan KSE	45,807.6	-0.9	13.3
Singapore STI	3,222.9	0.1	-0.9
South Korea KOSPI	2,563.3	0.1	14.6
Taiwan TWI	16,738.2	0.1	18.4
Thailand SET	1,548.8	-1.8	-7.2
Argentina MERV	583,982.6	-13.6	189.0
Brazil BVSP*	115,985.3	-1.3	5.7
Mexico IPC	52,971.2	-2.6	9.3
Egypt EGX 30	19,224.5	2.2	31.7
Israel TA-125	1,866.2	-0.2	3.6
Saudi Arabia Tadawul	11,298.2	-2.4	7.1
South Africa JSE AS	74,411.0	-1.1	1.9
World, dev'd MSCI	2,955.8	-1.2	13.6
Emerging markets MSCI	981.4	-0.7	2.6

US corporate bonds, spread over Treasuries

Basis points	latest	Dec 30th 2022
Investment grade	135	154
High-yield	424	502

Sources: Refinitiv Datastream; Standard & Poor's Global Fixed Income Research. *Total return index.

Commodities

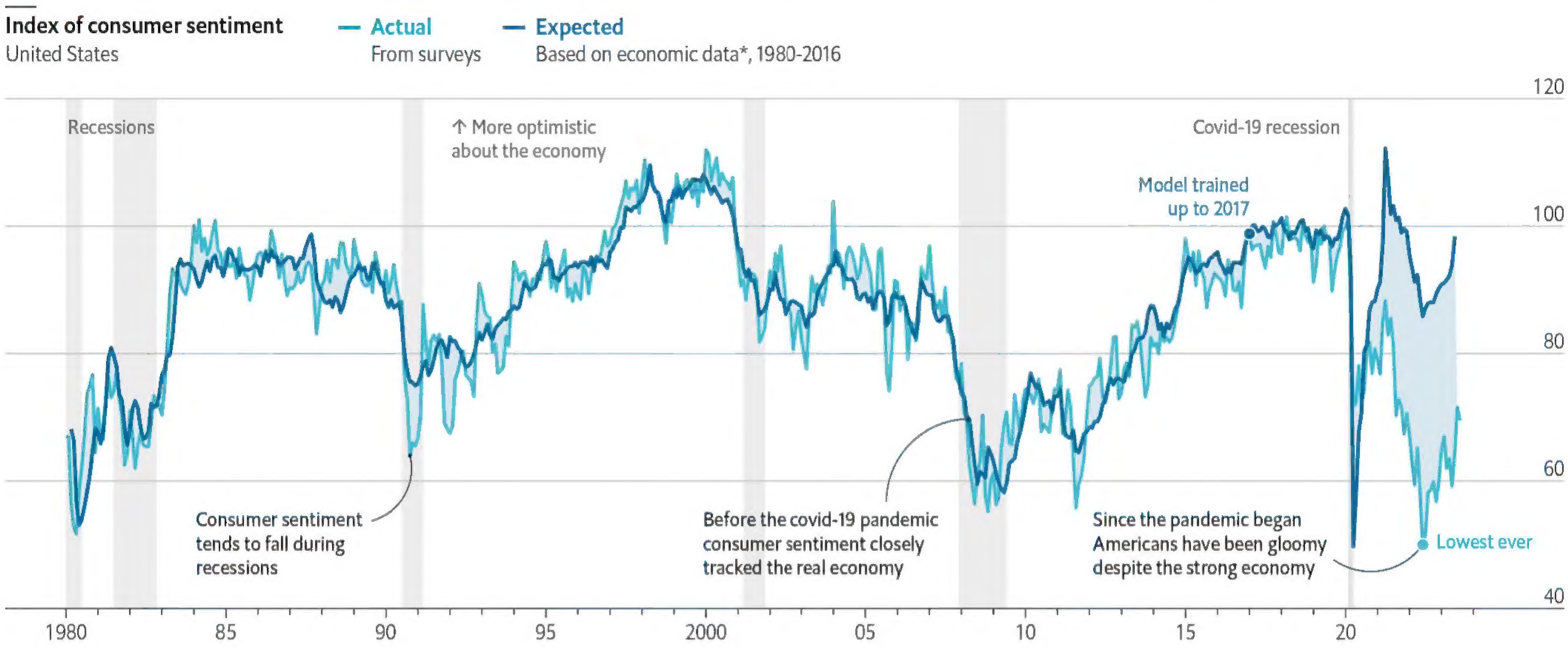
The Economist commodity-price index

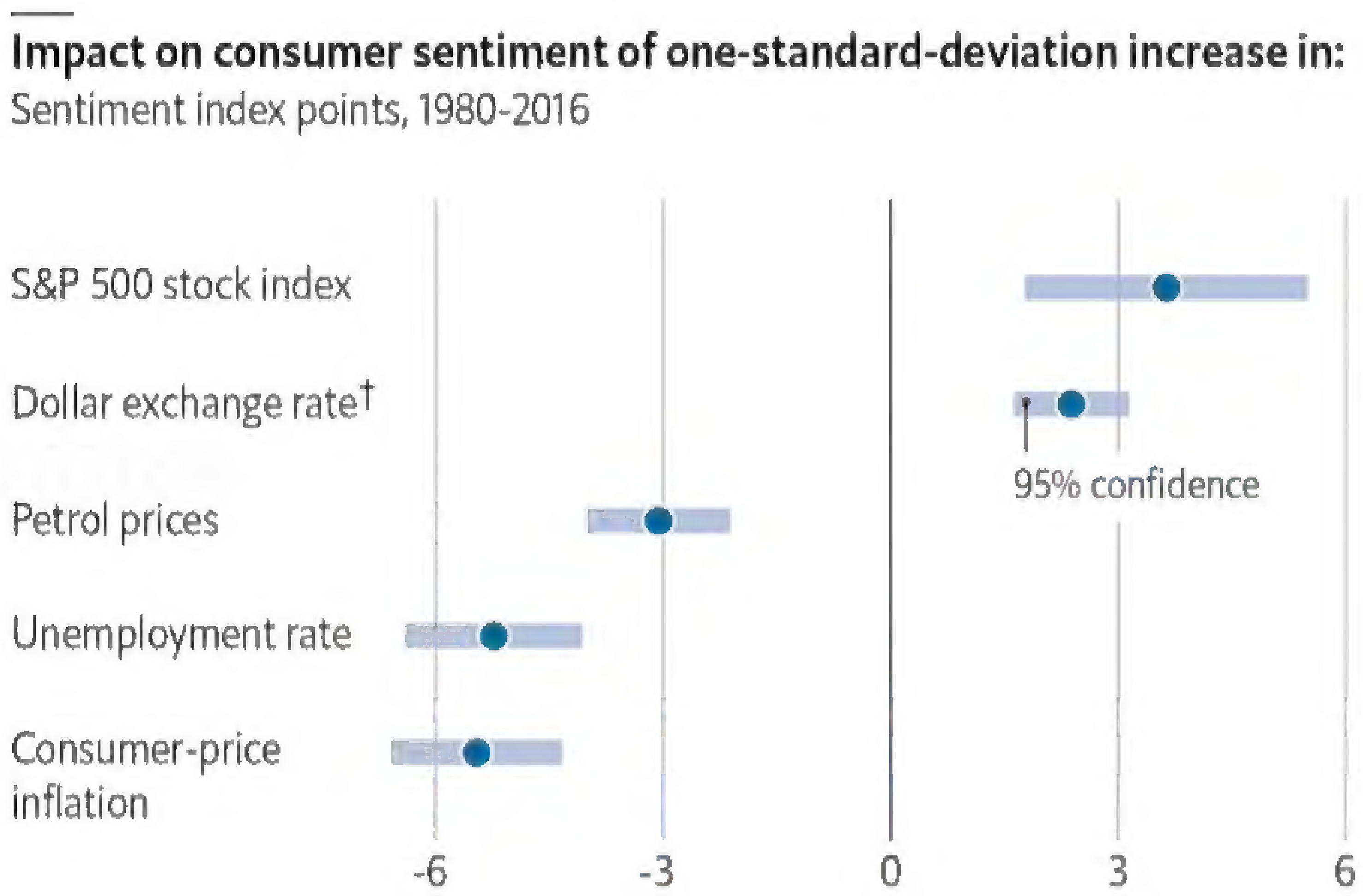
2015=100	Aug 29th	Sep 5th*	% change on month	year
Dollar Index				
All Items	146.2	147.5	2.6	-0.4
Food	134.0	133.3	-2.3	-6.6
Industrials				
All	157.7	160.8	6.8	5.0
Non-food agriculturals	112.0	114.5	4.2	-22.0
Metals	171.2	174.6	7.3	12.6
Sterling Index				
All items	177.3	179.4	4.0	-8.5
Euro Index				
All items	149.8	152.8	4.9	-7.9
Gold				
$ per oz	1,934.7	1,928.8	0.1	13.2
Brent				
$ per barrel	85.5	90.1	4.4	-3.1

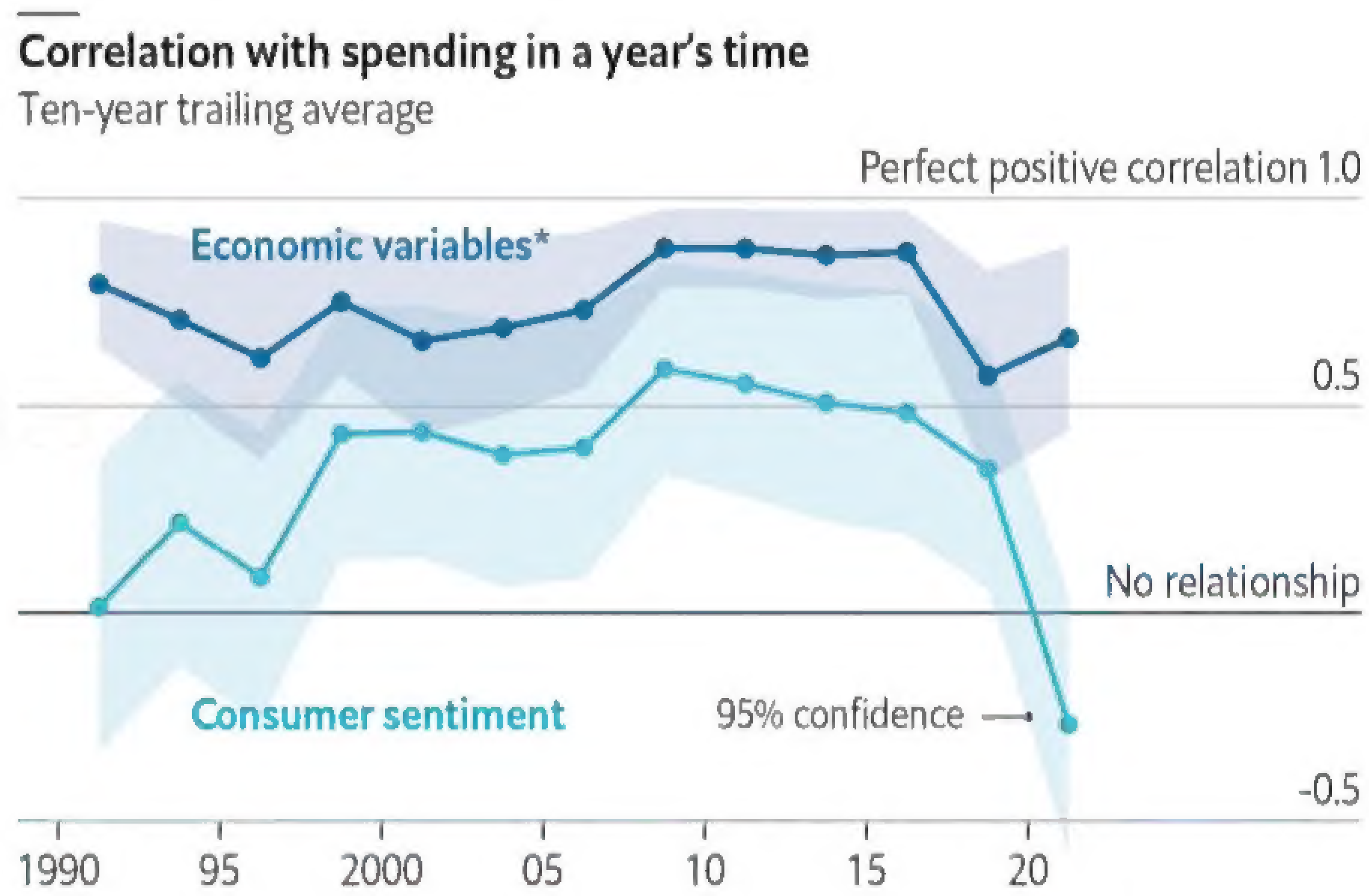
Sources: Bloomberg; CME Group; Cotlook; Refinitiv Datastream; Fastmarkets; FT; ICCO; ICO; ISO; Live Rice Index; LME; NZ Wool Services; Thompson Lloyd & Ewart; Urner Barry; WSJ. *Provisional.

For more countries and additional data, visit
economist.com/economic-and-financial-indicators

→ Since 2020, Americans' opinions about the state of the economy have diverged from economic data







*Excluding current aggregate consumer spending †Trade-weighted
Sources: University of Michigan; FRED; *The Economist*

Bad vibrations

The pandemic has broken a benchmark economic survey

AMERICANS ARE gloomy about the state of the economy. Since the covid-19 pandemic began, consumer sentiment has been in the doldrums, hitting its lowest level ever in June 2022. Such negativity has prompted claims that the country is suffering a "vibecession"—although the market appears healthy, good vibes are lacking.

Changes in consumer sentiment are normally a useful economic benchmark. The longest-running measure comes from a survey by University of Michigan, which began in 1946. Each month it asks a representative sample of 600 Americans a set of five questions probing their opinions on their own finances and spending, the state of the wider economy, and the outlook for both. For most of the past four decades the index has moved in lock-step with changes in current consumer spending, and also loosely predicted spending a year ahead.

Economists worry that current economic pessimism will become a self-fulfilling prophecy. Although a despondent public would have been a grave warning sign before the pandemic, since 2020 the mix of economic indicators that shape sentiment has changed, and as a result the measure has lost its predictive power.

The first study highlighting this pattern was published last month on X (formerly Twitter) by a researcher using the handle "quantian1", who chose to remain anonymous. Extending this analysis, we built a statistical model to predict the monthly consumer-sentiment index between 1980 and 2016 using a broad battery of economic data. A combination of 13 variables, including inflation, unemployment and petrol prices explained 86% of the variation in the index in this period, a very good fit.

Before the pandemic, the relationships between these indicators and consumer sentiment were relatively stable. When tested on data from 2017-19, the model trained on the 1980-2016 period reliably predicted sentiment, with only small errors. However, covid seems to have severed this link, making the model's projections wildly inaccurate. If the pre-2020 associations still held, today's score would be 98, some 30 points above the actual value.

Although Americans report being worried about their finances, they are behaving as flush as ever—and in economic forecasting, actions speak louder than words. When used to project future spending rather than consumer sentiment, the same battery of economic variables has fully maintained its forecasting power since 2020. In contrast, since covid began, the correlation between sentiment and both current and future spending has vanished.

Our results should assuage concerns that a vibecession today spells a recession tomorrow. The gap between sentiment and economic reality has finally stabilised after growing steadily from 2020-22. Bad vibes may be the new normal. ■

Building revolution

Isabel Crook, anthropologist and teacher of the Chinese people, died on August 20th, aged 107

FROM THE start, Isabel Crook was at the heart of things. In October 1949, riding in an army truck, she celebrated the founding of the Chinese Communist Party in Tiananmen Square in newly liberated Beijing. She and her husband David were almost the only Westerners; it was the most joyful moment she had ever watched. The processions of soldiers and civilians went on for six hours. Every two hours or so she had to dart through the marchers to feed her new baby, Carl, and dart back, eager not to miss too much.

China was her home, and Communism was her cause. From her late teens she had needed to find one, even asking her mother to send religious books in case they would help. No cause came that way. Friends lent her books on Marxism; she began to get her ideas sorted. Then she met David, ardently Communist, a spy for the Soviets and a fighter for the Republicans in the Spanish civil war. And that was that. She was "Comrade Isabel" from then on.

She had meant to return to the West, to her native Canada or to Britain, but neither she nor David could keep away from China. As an anthropologist, minutely studying daily life in remote villages in Sichuan, she slipped naturally into Chinese ways: sleeping on a *kang* or heated brick bed, wearing homespun clothes, devouring buckwheat noodles and travelling by mule cart, foot or bicycle. When she taught English from 1949 to 1981 at Beijing Foreign Studies University, schooling generations of Chinese diplomats, she and David had a small peasant's house on campus with paper in the windows, rather than glass, and helped with outdoor labour. With revolution always in the air, they could not leave. From 1947 her long life was spent in China.

It had also begun there, in 1915. Her parents were Canadian missionaries in Chengdu when the last emperor, though forced to abdicate, still lived in the Forbidden City. Within a few years, though, in her local church hall, young Communists were beginning to meet. By the time she returned from her studies in Toronto, in 1938, Japan had invaded China and the Nationalist government was weakening. Two years later she went with a team to her first village, Prosperity, to take notes on the progress of the Nationalists' agrarian reforms. After the second world war had deflected her she studied a second village, Ten Mile Inn, in 1947, to see how it was managing under new, Communist, rule.

Her first sight of Prosperity was breathtaking: curved terraces of shimmering rice paddies set among steep mountains. The main street, however, was repulsive, a pig-pen and a garbage dump. Every few days this street became a market where farmers sold whatever they could scrape from their tiny pockets of land, to get salt or oil, or a haircut. Most of the villagers, 55% by her team's reckoning, were destitute or poor. Another 35%, middle peasants or shopkeepers, were "getting by". The remaining 10%, rich estate-owners, controlled everything, renting out land in exchange for 60-70% of the crop and running the lucrative opium trade in opium. The village was plagued in spring by "bandits" who, she discovered, were just farmers desperate with hunger. Meanwhile the Nationalist government was press-ganging men to fight the Japanese, raising swingeing taxes and appointing unknown outsiders as officials. Nothing was working.

At Ten Mile Inn, seven years later, she found a quite different picture. Although this too was a place of grinding poverty, with lean corn-cobs piled in its muddy streets, the atmosphere was charged with enthusiasm. This village had been one of the first to be freed from Nationalist rule. A slogan on the main gate proclaimed Mao Zedong the saviour of the people, and red posters on gateways proudly marked the homes of willing volunteers for the PLA. Fully 70% of the villagers no longer paid tax; only the rich paid. These "objects of struggle" also had to give back any land or goods they had taken, or their fathers or grandfathers had taken, for non-payment of debts or rents. Thus feudalism was destroyed and wealth shared. Peasants now had a union, and middle-peasants ran the village. The PLA helped to "purify the Party" by conducting tough, though not lethal, public shaming.

She recorded some missteps. The new cadres liked perks as much as the old, wanting the first pick of potential wives and feasting on meat dumplings. Innocent people were accused and humiliated, and these proceedings divided the village, turning neighbours against each other. In general, though, she was happy to report that Ten Mile Inn had become—as Mao had wanted all villages to become—"a revolutionary bastion". People naturally asked whether her work was sound when she was so committed to one side, even helping with harvest and hoeing. She was sure she could be. Life, for most, was simply better under Communism. It showed clearly in the data she and her team had gathered, interviewing all day and typing most of the night, tirelessly.

If she ever doubted, David soon set her straight. The Great Leap Forward in 1958-60, in which perhaps 15m people died, was like surgery, he said, for some acute disease. Wouldn't she rather have that, than go on suffering? And any revolution had its mistakes. David did not complain, so she did not, when he was jailed during the Cultural Revolution from 1967 to 1973, and she was put under house arrest. She spent the time studying Mao's works, enjoying his sense of humour. The most difficult point came in 1989, when she and David took water and plastic sheets to the student protesters in Tiananmen Square and wrote to the *People's Daily*, appealing to the government not to use force. The government used it mercilessly. Still, they stayed in China, because they belonged.

The country she watched now was increasingly market-driven, consumerist and prosperous, unleashed by Deng Xiaoping's reforms in the late 1970s. She had no love for capitalism, but to her Deng's choice was valid. In the early days, to quote Bertolt Brecht, "The house was built with the stones that were there." Perhaps, now, it could be built differently. She was too old now to heave stones herself; but not too old to hope, fervently, for whatever China's people needed most. If the Party called, she was there. ■